



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
431-0100-07

Department of Human Services

October 1, 2004 through September 30, 2006

Released:
August 2007

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules and Financial Statements:

Auditor's Reports Issued

We issued unqualified opinions on the Department of Human Services' (DHS's) financial schedules and on the financial statements of the Children's Trust Fund.

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Internal Control Over Financial Reporting

We identified reportable conditions related to internal control over financial reporting (Findings 1 and 2). We consider Finding 1 to be a material weakness.

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Noncompliance and Other Matters Material to the Financial Schedules and/or Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under *Government Auditing Standards*. However, we did identify reportable conditions (Findings 2, 3, and 17).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 14 programs as major programs and identified known questioned costs of \$96.0 million and known and likely questioned costs totaling \$518.6 million. DHS expended a total of \$6.2 billion in federal awards during the two-year period ended September 30, 2006. We issued 5 unqualified opinions, 6 qualified opinions, and 3 adverse opinions. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 3, 4, 6 through 18, and 20 through 22). We consider Findings 3, 7 through 9, 11, 13, 15, and 16 to be material weaknesses. In addition, we identified 19 recommendations repeated from our prior report for the two-year period ended September 30, 2004, many of which were also reported in earlier DHS Single Audits (Findings 3 through 5, 7 through 9, 11, 13, 14, 16, 17, and 19 through 22).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4 through 21).

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Systems of Accounting and Internal Control:

We determined that DHS was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
10.551 and 10.561	Food Stamp Cluster	Unqualified
16.588	Violence Against Women Formula Grants	Adverse
93.556	Promoting Safe and Stable Families	Unqualified
93.558	Temporary Assistance for Needy Families	Qualified
93.563	Child Support Enforcement	Unqualified
93.566	Refugee and Entrant Assistance: State Administered Programs	Qualified
93.568	Low-Income Home Energy Assistance	Qualified
93.569	Community Services Block Grant	Unqualified
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster	Adverse
93.645	Child Welfare Services: State Grants	Qualified
93.658	Foster Care: Title IV-E	Qualified
93.659	Adoption Assistance	Unqualified
93.667	Social Services Block Grant	Qualified
93.674	Chafee Foster Care Independence Program	Adverse

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

August 29, 2007

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Human Services (DHS) for the period October 1, 2004 through September 30, 2006.

This report contains our report summary; our independent auditor's reports on the financial schedules and financial statements; and the DHS financial schedules, the Children's Trust Fund financial statements, notes to the financial schedules and financial statements, and the schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains DHS's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL SCHEDULES, AND
FINANCIAL STATEMENTS



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

We have audited the accompanying financial schedules of the Department of Human Services for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

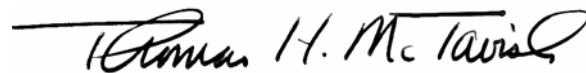
As described in Note 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Department of Human Services' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Department of Human Services for the fiscal years ended September 30, 2006 and September 30, 2005 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.
Auditor General
April 30, 2007



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

We have audited the accompanying financial statements of the Children's Trust Fund, Department of Human Services, as of and for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board's management and the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Children's Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue funds as of September 30, 2006 and September 30, 2005 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Children's Trust Fund, Department of Human Services, as of September 30, 2006 and September 30, 2005 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side.

Thomas H. McTavish, C.P.A.
Auditor General
April 30, 2007

DEPARTMENT OF HUMAN SERVICES
Schedule of General Fund Revenues
Fiscal Years Ended September 30
(In Thousands)

	<u>2006</u>	<u>2005</u>
REVENUES		
From federal agencies	\$ 3,060,476	\$ 2,948,084
From local agencies	56,330	53,371
From services	12	11
From licenses and permits	24	16
Miscellaneous:		
Child support recovery of grants	40,533	39,608
Other sources	<u>35,089</u>	<u>23,257</u>
Total revenues	<u>\$ 3,192,463</u>	<u>\$ 3,064,346</u>

The accompanying notes are an integral part of the financial schedules.

Amounts may not foot due to rounding.

DEPARTMENT OF HUMAN SERVICES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>2006</u>	<u>2005</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,162,320	\$ 1,080,168
Budgetary adjustment		22,446
Balances carried forward	7,852	11,117
Restricted financing sources	3,189,418	3,032,459
Less: Intrafund expenditure reimbursements	<u>(642)</u>	<u>(599)</u>
Total	<u>\$ 4,358,948</u>	<u>\$ 4,145,591</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 4,356,403	\$ 4,138,168
Less: Intrafund expenditure reimbursements	<u>(642)</u>	<u>(599)</u>
Net expenditures and transfers out	<u>\$ 4,355,761</u>	<u>\$ 4,137,569</u>
Balances carried forward:		
Encumbrances	\$	\$ 5,415
Restricted revenues - not authorized or used	1,812	2,437
Total balances carried forward	<u>\$ 1,812</u>	<u>\$ 7,852</u>
Balances lapsed	<u>\$ 1,375</u>	<u>\$ 8,198</u>
Overexpended	<u>\$ 0</u>	<u>\$ (8,028)</u>
Total	<u>\$ 4,358,948</u>	<u>\$ 4,145,591</u>

The accompanying notes are an integral part of the financial schedules.

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Balance Sheet
As of September 30
(In Thousands)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Equity in common cash (Notes 4a and 4b)	\$ 766	\$ 1,056
Securities lending collateral	10,082	2,013
Other current assets	333	290
Total current assets	<u>\$ 11,181</u>	<u>\$ 3,358</u>
 Investments (Notes 4a and 4c)	 <u>21,562</u>	 <u>21,199</u>
 Total assets	 <u><u>\$ 32,743</u></u>	 <u><u>\$ 24,557</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 386	\$ 4
Security lending obligations	10,082	2,013
Accounts payable and other liabilities	145	71
Amounts due to other funds	5	5
Deferred revenue - current	41	750
Total liabilities	<u>\$ 10,659</u>	<u>\$ 2,843</u>
 Fund Balance:		
Reserved for funds held as permanent investments (Note 4b)	\$ 20,511	\$ 20,458
Unreserved	1,573	1,257
Total fund balance	<u>\$ 22,084</u>	<u>\$ 21,715</u>
 Total liabilities and fund balances	 <u><u>\$ 32,743</u></u>	 <u><u>\$ 24,557</u></u>

The accompanying notes are an integral part of the financial statements.

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(In Thousands)

	<u>2006</u>	<u>2005</u>
REVENUES		
Investment income (Note 4c)	\$ 1,083	\$ 838
From federal agencies	1,081	980
Income tax checkoff	381	
Other donations	1,857	595
Total revenues	<u>\$ 4,402</u>	<u>\$ 2,413</u>
EXPENDITURES		
Grants	\$ 2,794	\$ 1,660
Administration	1,238	816
Total expenditures	<u>\$ 4,032</u>	<u>\$ 2,476</u>
Excess of revenues over (under) expenditures	<u>\$ 370</u>	<u>\$ (62)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$	\$
Transfers to other funds		(6)
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ (6)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 370	\$ (68)
Fund balances - Beginning of fiscal year	<u>21,715</u>	<u>21,782</u>
Fund balances - End of fiscal year	<u><u>\$ 22,084</u></u>	<u><u>\$ 21,715</u></u>

The accompanying notes are an integral part of the financial statements.

Amounts may not foot due to rounding.

Notes to the Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Human Services (DHS) for the fiscal years ended September 30, 2006 and September 30, 2005. The financial transactions of DHS are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The accompanying financial statements report the financial position and changes in financial position of DHS's Children's Trust Fund (CTF) as of and for the fiscal years ended September 30, 2006 and September 30, 2005. The CTF is a part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DHS and the CTF. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; deposits and investments; pension benefits and other postemployment benefits; and contingencies and commitments.

b. Measurement Focus, Basis of Accounting, and Presentation

The DHS financial schedules and the CTF financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America (GAAP). Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain

expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for DHS's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DHS or the State's General Fund in conformity with GAAP.

The accompanying financial statements present only the CTF. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position of the State of Michigan or its special revenue funds in conformity with GAAP.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary adjustment: Section 212, Act 147, P.A. 2005, and Section 212, Act 344, P.A. 2004, appropriate an amount in addition to the funds appropriated in part 1 of the Acts (for write-offs of accounts receivable, deferrals, and prior year obligations in excess of prior year appropriations) equal to the total write-offs and prior year expenditures not to exceed amounts available in prior year revenues or current year revenues in excess of authorized amounts. The budgetary adjustment amount for fiscal year 2004-05 was \$22.4 million.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized

or used. Significant balances carried forward consist of \$3.5 million in Information Technology Data System Enhancement and \$1.9 million in State Disability Assistance payments for fiscal year 2005-06 and \$8.7 million in Food Stamps Reinvestment appropriations for fiscal year 2004-05.

- d. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of restricted intrafund expenditure reimbursements, to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used.
- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations. No encumbrances were recorded in fiscal year 2005-06 because no authorization was available to finance the encumbrances.
- g. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were in the State Disability Assistance payments appropriation, with \$1.4 million for fiscal year 2005-06 and \$1.9 million for fiscal year 2004-05.
- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

- i. Overexpended: The total overexpenditure of line-item authorizations. DHS is required to seek a supplemental appropriation to authorize the expenditure. There were no overexpenditures in fiscal year 2005-06. Overexpenditures occurring in fiscal year 2004-05 appropriations totaled \$8.0 million, with \$7.0 million in DHS appropriations for the Maxey Training School and the remaining in demonstration projects; adult foster care, children's welfare, and daycare licensing; and the Family Independence Program. Supplemental appropriations were not sought for fiscal year 2004-05. However, DHS is in the process of submitting the outstanding accounts payable less than \$1,000 to the State Administrative Board for adult foster care, children's welfare, and daycare licensing. This would allow DHS to make payment of the outstanding payables using fiscal year 2006-07 appropriations.

Note 3 Contingencies and Commitments

a. Federal Penalties and Settlement Agreements

(1) Settlement Agreements with the United States Department of Agriculture (USDA)

Because DHS's Food Stamps Program error rates were above the national average through fiscal year 2002-03, the USDA imposed sanctions on DHS. The USDA imposed a total of \$89.3 million of sanctions through fiscal year 2001-02. The USDA's Food and Nutrition Service (FNS) changed the way it computes the Food Stamp Program error rate and fiscal year 2002-03 was held harmless. In addition, no sanctions will be imposed for fiscal years 2004-05 and 2003-04 because DHS's error rates were below the federal tolerance level. Further, DHS will not incur a sanction for fiscal year 2005-06 because the 2004-05 error rate did not exceed the federal tolerance level. DHS entered into settlement agreements with the USDA to resolve the sanctions through fiscal year 2001-02. The settlement agreements often allow for DHS's reinvestment in initiatives to reduce the mispayment rate rather than repayment to USDA. Amounts to be reinvested by DHS are recorded as expenditures when incurred. FNS has deferred payment on \$1.2 million of the sanctioned amount. FNS has waived \$10.3 million of

previous sanctions and will waive deferred amounts if DHS achieves specified targets for reduction in the mispayment rates. As of November 3, 2006, federal Food Stamps Program sanctions that may result in a loss to DHS totaled \$17.6 million (remaining reinvestment of \$16.4 million and deferred payment at risk of \$1.2 million). A summary of the sanctions and settlement agreements follows:

Food Stamps Program
Sanctions and Settlement Agreements
As of November 3, 2006
(In Thousands)

Fiscal Year	Initial Sanction	Reinvestment Plan	Reinvestment Plan Amount	Reinvestment Expenditures	Remaining Reinvestment	FNS Waiver of Sanction	Deferred Payment at Risk	Penalty Payments Expended
1995-96	\$ 3,388	Plan I	\$ 254	\$ 254	\$	\$ 1,694	\$	\$
		Plan IA	720	720				
		Plan IB	720	720				
1996-97	2,771	Plan I	208	208		1,385		
		Plan IA	589	589				
		Plan IB	589	589				
1997-98	15,756	Plan II	7,878	7,878		2,626		1,707
		Plan IIA	919	919				
		Plan IIB	2,626	2,626				
1998-99	19,773	Plan IIA	1,030	1,030				
		Plan IIB	2,943	2,943				1,913
		Plan III	9,887	9,887				
		Plan IIIA	4,000	2,923	1,077			
1999-2000	8,954	Plan IIIA	3,134		3,134			
		Plan IV	5,820	5,820				
2000-01	13,921	Plan V	3,480	3,480		4,640	1,160	4,641
2001-02	24,735	Plan V	12,367	12,367				
		Plan VA	6,184	175	6,009			
		Plan VB	6,184		6,184			
	<u>\$ 89,298</u>		<u>\$ 69,532</u>	<u>\$ 53,128</u>	<u>\$ 16,404</u>	<u>\$ 10,345</u>	<u>\$ 1,160</u>	<u>\$ 8,261</u>

(2) Title IV-A Noncooperation Penalty

DHS received a Temporary Assistance for Needy Families (TANF) penalty letter from the U.S. Department of Health and Human Services (HHS) on May 19, 2005, assessing a potential \$7.5 million penalty for failing to apply sanctions to clients receiving TANF assistance for noncooperation with child support and/or paternity establishment during fiscal years 2001-02 and 2000-01. DHS submitted a corrective action plan to HHS outlining how sanction application errors would be reduced. HHS approved the plan on September 15, 2005. If DHS implements the plan and successfully reduces its sanction application errors to an acceptable level, HHS will forgive the penalty. If DHS is not successful in reducing the

sanction application errors to an acceptable level, HHS has indicated that it will assess the penalty. DHS would also be required to replace the \$7.5 million with State funds that may not be included in its maintenance of effort obligation.

b. Dwayne B v Granholm

A New York group, Children's Rights, Inc., sued the State of Michigan and DHS in August 2006. In *Dwayne B v Granholm, et al.*, USDC, ED Mich No. 06-13548, plaintiffs seek classwide relief under Title 42, Section 1983 of the *United States Code*, in the form of a number of improvements to various aspects of the child welfare system. If the plaintiffs prevail, the Michigan child welfare programs would be required to be significantly expanded and the State would be required to pay the plaintiffs' reasonable costs and expenses incurred in the prosecution of the case, including reasonable attorney fees. The actual dollar amount is unknown at this time.

c. Prior DHS Single Audit Report Questioned Costs

The DHS Single Audit report for the two fiscal years ended September 30, 2004 included questioned costs of \$33,912,322. The federal grantor agency (HHS) requested DHS to return \$11,942,688 of the questioned costs. DHS returned \$689,789 of the questioned costs during fiscal year 2005-06. DHS appealed the return of the remaining \$11,252,899 in June 2006 and considers these questioned costs a reasonably possible liability.

Note 4 Children's Trust Fund (CTF)

a. Deposits and Investments

The State Treasurer had the same authority to invest the assets of the CTF as was granted to an investment fiduciary under the Public Employee Retirement System Investment Act, pursuant to Sections 38.1132 - 38.1140 of the *Michigan Compiled Laws*. All of the CTF's deposits and investments are managed by the State Treasurer. "Equity in common cash" represents an interest in the State's common cash pool, which is used by most State funds as a short-term investment vehicle. The CTF's deposits are included in the State of Michigan's equity in common cash.

b. Deposits

	As of September 30	
	2006	2005
Equity in common cash	\$765,660	\$1,055,601

Governmental Accounting Standards Board (GASB) requires certain disclosures related to custodial credit risk and foreign currency risk for deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the CTF's deposits will not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the CTF's name. Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of deposits. Custodial credit risk and foreign currency risk disclosures and policies for controlling these risks for deposits are described in Note 5 of the *SOMCAFR* for fiscal year ended September 30, 2006.

c. Investments

GASB requires disclosures for investments for interest rate risk, custodial credit risk, credit risk, foreign currency risk, and concentration of credit risk. The policies for controlling the risks for investments are disclosed in Note 8 of the *SOMCAFR* for fiscal year ended September 30, 2006.

Interest rate risk, custodial credit risk, credit risk, foreign currency risk, and concentration of credit risk are discussed in the following paragraphs:

- (1) Interest rate risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

As of September 30, 2006, the average maturities of investments were as follows:

<u>Investment Type</u>	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Mutual funds	\$ 1,104,967	\$	\$	\$	\$
Corporate bonds	1,363,700			1,363,700	
Government securities	19,093,620		2,953,412	11,234,503	4,905,705
Total investments	<u>\$ 21,562,287</u>	<u>\$ 0</u>	<u>\$2,953,412</u>	<u>\$12,598,203</u>	<u>\$ 4,905,705</u>

As of September 30, 2005, the average maturities of investments were as follows:

<u>Investment Type</u>	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Mutual funds	\$ 522,380	\$	\$	\$	\$
Corporate bonds	1,404,466			1,404,466	
Government securities	19,272,398		2,980,825	11,340,843	4,950,731
Total investments	<u>\$ 21,199,244</u>	<u>\$ 0</u>	<u>\$ 2,980,825</u>	<u>\$ 12,745,308</u>	<u>\$ 4,950,731</u>

- (2) Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the CTF will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the State on behalf of the CTF, and are held either by the counterparty or the counterparty's trust department or agent but not in State's name. All of the investments of the CTF were insured or registered or were held by the State or its agent in the State's name.

- (3) Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of September 30, 2006, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Corporate bonds	\$ 1,363,700	AAA	\$ 905,410 458,290	Aaa Unrated
Governmental securities - U.S. agencies	17,120,859 1,972,762	AAA Unrated	14,679,530 4,414,091	Aaa Unrated
Total investments	<u>\$ 20,457,321</u>		<u>\$20,457,321</u>	

As of September 30, 2005, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Corporate bonds	\$ 1,404,466	AAA	\$ 1,404,466	Aaa
Governmental securities - U.S. agencies	17,278,273 1,994,125	AAA Unrated	19,272,398	Aaa
Total investments	<u>\$ 20,676,864</u>		<u>\$ 20,676,864</u>	

- (4) Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments. As of September 30, 2006 and September 30, 2005, the CTF did not have any investments in foreign securities.
- (5) Concentration of Credit Risk: Concentration of credit risk is the risk of the loss attributable to the magnitude of the CTF's investments with a single issuer. At September 30, 2006 and September 30, 2005, the CTF held more than 80% of investments in U.S. government agency or government-sponsored enterprise securities with the remaining investments in corporate bonds and equities in the name of the State.

All investments were reported at fair value. As of September 30, 2006, the CTF had the following investments that represent 5% or more of the CTF's total investments:

Name of Issuer	Amount	Percent of Investments
Federal Home Loan Bank	\$ 11,280,432	52%
Federal Farm Credit Bank	\$ 2,942,968	14%
Federal Home Loan Bank - Federal Reserve Notes	\$ 1,972,762	9%
Federal Home Loan Mortgage Corporation - Bonds	\$ 1,916,108	9%

As of September 30, 2005, the CTF had the following investments that represent 5% or more of the CTF's total investments:

Name of Issuer	Amount	Percent of Investments
Federal Home Loan Bank	\$ 11,382,662	54%
Federal Farm Credit Bank	\$ 2,969,097	14%
Federal Home Loan Bank - Federal Reserve Notes	\$ 1,994,125	9%
Federal Home Loan Mortgage Corporation - Bonds	\$ 1,944,514	9%

d. Securities Lending Transactions

The CTF participates in a security lending program. Under the authority of Section 38.1133 of the *Michigan Compiled Laws*, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian of the securities is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions, via a securities lending authorization agreement, authorizing the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During both fiscal years, the agent bank lent, at the direction of the State Treasurer, the CTF's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, Canadian provincial debt, and irrevocable bank letter of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower's default. Borrowers were

required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; or 2) in the case of loan securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State Treasurer did not impose any restrictions during both fiscal years on the amount of the loans that the agent bank made on its behalf. The agent bank indemnified the State by agreeing to purchase replacement securities or return cash collateral in the event that the borrower failed to return the loaned securities or pay distributions thereon. There were no such failures by any borrower during both fiscal years. Moreover, there were no losses during both fiscal years resulting from a default of the borrowers or agent bank.

During both fiscal years, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collective investment pool along with the cash collateral or other qualified and nonqualified tax-exempt plan lenders. As of September 30, 2006, the investment pool had an average duration of 22 days and an average expected maturity of 678 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2006, the CTF had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the CTF as of September 30, 2006 were \$10,000,000 and \$10,082,000, respectively, and as of September 30, 2005 were \$2,000,000 and \$2,012,500, respectively.

e. Expenditure Limitation of Children's Trust Fund

Act 160, P.A. 2005, and Act 119, P.A. 2005, reinstated the CTF income tax contribution starting with tax year 2005 and eliminated the requirement for a fund corpus. As a result, the Office of Financial Management, Office of the State Budget, reclassified the Children's Trust Fund from a permanent fund to a special revenue fund for the fiscal year ended September 30, 2005. The reclassification had no effect on the amounts reported in the Fund.

Revenues are derived primarily from the income tax contributions, federal grants, gifts, donations, and interest on investments. Under the revised statute, the amount available for disbursement by the Fund is limited to up to half of the CTF income tax contributions each year; the interest and earnings, excluding unrealized gains and losses, credited to the Fund in the previous fiscal year; and all money granted or received as gifts or donations. The funds that are not available for appropriation are reserved as funds held for permanent investments.

f. Unrealized Investment Gain/(Loss)

DHS decreased investment income by \$136,957 in fiscal year 2005-06 and by \$167,478 in fiscal year 2004-05 to reflect the change in fair value of investments.

SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2004 through September 30, 2006
(In Thousands)

For the Fiscal Year Ended September 30, 2005

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Food Stamp Cluster:					
Direct Programs:					
Food Stamps	10.551		\$ 1,096,171	\$	\$ 1,096,171
State Administrative Matching Grants for Food Stamp Program	10.561		86,300	3,655	89,955
Total Food Stamp Cluster			<u>\$ 1,182,471</u>	<u>\$ 3,655</u>	<u>\$ 1,186,126</u>
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	197 BREAKFAST	\$ 195	\$	\$ 195
National School Lunch Program	10.555	USDA 195 SECT 4, USDA 196, SECT 11, USDA 198 SNACKS	303		303
Total Child Nutrition Cluster			<u>\$ 498</u>	<u>\$ 0</u>	<u>\$ 498</u>
Total U.S. Department of Agriculture			<u>\$ 1,182,969</u>	<u>\$ 3,655</u>	<u>\$ 1,186,624</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Program:					
Supportive Housing Program	14.235		\$ (10)	\$ 1,390	\$ 1,380
Total U.S. Department of Housing and Urban Development			<u>\$ (10)</u>	<u>\$ 1,390</u>	<u>\$ 1,380</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		\$ 11	\$ 477	\$ 488
Juvenile Accountability Incentive Block Grants	16.523		526	3,977	4,503
Supervised Visitation, Safe Havens for Children	16.527		118	273	391
Juvenile Justice and Delinquency Prevention: Allocation to States	16.540		507	1,566	2,073
Title V: Delinquency Prevention Program	16.548		(11)	692	681
Part E: State Challenge Activities	16.549		212	4	216
Violence Against Women Formula Grants	16.588		63	3,471	3,534
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589		258	406	664
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		491		491
Total U.S. Department of Justice			<u>\$ 2,175</u>	<u>\$ 10,866</u>	<u>\$ 13,041</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
WIA Pilots, Demonstrations, and Research Projects	17.261		\$ 218	\$	\$ 218
Total U.S. Department of Labor			<u>\$ 218</u>	<u>\$ 0</u>	<u>\$ 218</u>
<u>U.S. Department of Energy</u>					
Direct Program:					
Weatherization Assistance for Low-Income Persons	81.042		\$ 621	\$ 12,681	\$ 13,302
Total U.S. Department of Energy			<u>\$ 621</u>	<u>\$ 12,681</u>	<u>\$ 13,302</u>
<u>U.S. Department of Education</u>					
Special Education Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
Special Education: Grants to States	84.027	040440/0304;050450/0405; 050490/CB;050490/EOSD; 040490/TS;050490/TS	\$ 204	\$	\$ 204
Wayne County Regional Educational Service Agency					
Special Education: Grants to States	84.027		82		82
Total Special Education Cluster			<u>\$ 286</u>	<u>\$ 0</u>	<u>\$ 286</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 1,234,312	\$	\$ 1,234,312	\$ 2,330,483
	85,022	8,075	93,097	183,052
	<u>\$ 1,319,334</u>	<u>\$ 8,075</u>	<u>\$ 1,327,409</u>	<u>\$ 2,513,535</u>
197 BREAKFAST	\$ 188	\$	\$ 188	\$ 383
USDA 195 SECT 4, USDA 196,	297		297	600
SECT 11, USDA 198 SNACKS	<u>\$ 485</u>	<u>\$ 0</u>	<u>\$ 485</u>	<u>\$ 983</u>
	<u>\$ 1,319,819</u>	<u>\$ 8,075</u>	<u>\$ 1,327,894</u>	<u>\$ 2,514,518</u>
	\$ (17)	\$ 1,649	\$ 1,632	\$ 3,012
	<u>\$ (17)</u>	<u>\$ 1,649</u>	<u>\$ 1,632</u>	<u>\$ 3,012</u>
	\$ 1	\$ 318	\$ 319	\$ 807
	461	2,174	2,635	7,138
	38	276	314	705
	485	922	1,407	3,480
		445	445	1,126
	82	130	212	428
	265	3,466	3,731	7,265
	12	389	401	1,065
	487		487	978
	<u>\$ 1,831</u>	<u>\$ 8,120</u>	<u>\$ 9,951</u>	<u>\$ 22,992</u>
	\$ 453	\$ 0	\$ 453	\$ 671
	<u>\$ 453</u>	<u>\$ 0</u>	<u>\$ 453</u>	<u>\$ 671</u>
	\$ 633	\$ 15,454	\$ 16,087	\$ 29,389
	<u>\$ 633</u>	<u>\$ 15,454</u>	<u>\$ 16,087</u>	<u>\$ 29,389</u>
050450/0405; 060450/0506;	\$ 128	\$ 5	\$ 133	\$ 337
060480/EOSD; 050490/TS	33		33	115
	<u>\$ 161</u>	<u>\$ 5</u>	<u>\$ 166</u>	<u>\$ 452</u>

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2004 through September 30, 2006
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 2005

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Adult Education: State Grant Program	84.002	051190/510015	\$ 50	\$	\$ 50
Vocational Education: Basic Grants to States	84.048	053320/50102	20		20
Total Michigan Department of Labor and Economic Growth			<u>\$ 70</u>	<u>\$ 0</u>	<u>\$ 70</u>
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	041590/0405, 051590/0405	\$ 274	\$	\$ 274
Special Education: Grants for Infants and Families with Disabilities	84.181	041330/IACFIA, 051330/IACFIA	186		186
State Grants for Innovative Programs	84.298	040250/0405			0
Improving Teacher Quality State Grants	84.367	040520/0405	5		5
Total Michigan Department of Education			<u>\$ 465</u>	<u>\$ 0</u>	<u>\$ 465</u>
Total Pass-Through Programs			<u>\$ 535</u>	<u>\$ 0</u>	<u>\$ 535</u>
Total U.S. Department of Education			<u>\$ 821</u>	<u>\$ 0</u>	<u>\$ 821</u>
<u>U.S. Department of Health and Human Services</u>					
CCDF Cluster:					
Direct Programs:					
Child Care and Development Block Grant	93.575		\$ 179,786	\$ 8,574	\$ 188,360
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		80,016	3,816	83,832
Total CCDF Cluster			<u>\$ 259,802</u>	<u>\$ 12,390</u>	<u>\$ 272,192</u>
Medicaid Cluster:					
Pass-Through Programs:					
Michigan Department of Community Health					
Medical Assistance Program	93.778	05 05 05 MI 5048, 05 05 05 MI 5028	\$ 87,376	\$ 0	\$ 87,376
Total Medicaid Cluster			<u>\$ 87,376</u>	<u>\$ 0</u>	<u>\$ 87,376</u>
Direct Programs:					
Promoting Safe and Stable Families	93.556		\$ 5,845	\$ 6,830	\$ 12,675
Temporary Assistance for Needy Families	93.558		526,535	144,538	671,073
Child Support Enforcement	93.563		59,635	117,777	177,412
Child Support Enforcement Research	93.564		54	42	96
Refugee and Entrant Assistance: State Administered Programs	93.566		5,307	2,021	7,328
Low-Income Home Energy Assistance	93.568		107,463	12,956	120,419
Community Services Block Grant	93.569		(250)	22,970	22,720
Community Services Block Grant Formula and Discretionary					
Awards Community Food and Nutrition Programs	93.571		(5)	15	10
Refugee and Entrant Assistance: Discretionary Grants	93.576		174	419	593
Refugee and Entrant Assistance: Targeted Assistance Grants	93.584		(25)	1,279	1,254
Empowerment Zones Program (Social Services in Empowerment Zones and Enterprise Communities)	93.585		(9)	7,255	7,246
Community-Based Child Abuse Prevention Grants	93.590		196	784	980
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Discretionary Grants	93.592				0
Grants to States for Access and Visitation Programs	93.597			284	284
Chafee Education and Training Vouchers Program (ETV)	93.599		842		842
Head Start	93.600		143	199	342
Children's Justice Grants to States	93.643		417	108	525
Child Welfare Services: State Grants	93.645		9,736		9,736
Foster Care: Title IV-E	93.658		111,200	1,490	112,690
Adoption Assistance	93.659		102,398		102,398
Social Services Block Grant	93.667		102,275	485	102,760

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
061190/611036	\$ 34	\$	\$ 34	\$ 84
063320/60101	78		78	98
	<u>\$ 112</u>	<u>\$ 0</u>	<u>\$ 112</u>	<u>\$ 182</u>
051590/0506, 061590/0506	\$ 372	\$	\$ 372	\$ 646
061330/IACFIA	100		100	286
050250/0506	1		1	1
050520/0506, 060520/0506	8		8	13
	<u>\$ 481</u>	<u>\$ 0</u>	<u>\$ 481</u>	<u>\$ 946</u>
	<u>\$ 593</u>	<u>\$ 0</u>	<u>\$ 593</u>	<u>\$ 1,128</u>
	<u>\$ 754</u>	<u>\$ 5</u>	<u>\$ 759</u>	<u>\$ 1,580</u>
	\$ 190,565	\$ 10,961	\$ 201,526	\$ 389,886
	88,007	1,101	89,108	172,940
	<u>\$ 278,572</u>	<u>\$ 12,062</u>	<u>\$ 290,634</u>	<u>\$ 562,826</u>
06 06 05 MI 5048, 06 06 05 MI 5028	\$ 90,541	\$ 0	\$ 90,541	\$ 177,917
	<u>\$ 90,541</u>	<u>\$ 0</u>	<u>\$ 90,541</u>	<u>\$ 177,917</u>
	\$ 9,936	\$ 5,787	\$ 15,723	\$ 28,398
	465,425	159,456	624,881	1,295,954
	63,796	127,365	191,161	368,573
	48	66	114	210
	3,846	1,543	5,389	12,717
	135,800	8,607	144,407	264,826
	1,033	23,193	24,226	46,946
	3	148	151	161
	120	401	521	1,114
	(10)	1,113	1,103	2,357
		521	521	7,767
	209	835	1,044	2,024
	1	104	105	105
		265	265	549
	470	654	1,124	1,966
	125	91	216	558
	688		688	1,213
	9,692		9,692	19,428
	71,393	1,484	72,877	185,567
	114,365		114,365	216,763
	127,238	363	127,601	230,361

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2004 through September 30, 2006
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 2005

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Child Abuse and Neglect State Grants	93.669		\$ 390	\$ 15	\$ 405
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	93.671		33	1,935	1,968
Chafee Foster Care Independence Program	93.674		4,065	2,017	6,082
Total Direct Programs			<u>\$ 1,036,419</u>	<u>\$ 323,419</u>	<u>\$ 1,359,838</u>
Pass-Through Programs:					
Michigan Department of Community Health Injury Prevention and Control Research and State and Community Based Programs	93.136	VF1/CCV519922-03	\$ 97	\$ 1,017	\$ 1,114
International Social Service - United States of America Branch U.S. Repatriation	93.579		3		3
Total Pass-Through Programs			<u>\$ 100</u>	<u>\$ 1,017</u>	<u>\$ 1,117</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,383,697</u>	<u>\$ 336,826</u>	<u>\$ 1,720,523</u>
<u>Social Security Administration</u>					
Disability Insurance/SSI Cluster:					
Direct Programs:					
Social Security - Disability Insurance	96.001		\$ 73,684	\$	\$ 73,684
Total Social Security Administration			<u>\$ 73,684</u>	<u>\$ 0</u>	<u>\$ 73,684</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,644,175</u></u>	<u><u>\$ 365,418</u></u>	<u><u>\$ 3,009,593</u></u>

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

For the Fiscal Year Ended September 30, 2006

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 583	\$ 407	\$ 990	\$ 1,395
	293	1,981	2,274	4,242
	2,956	1,758	4,714	10,796
	<u>\$ 1,008,010</u>	<u>\$ 336,142</u>	<u>\$ 1,344,152</u>	<u>\$ 2,703,990</u>
VF1/CCV519922-03	\$ 25	\$ 955	\$ 980	\$ 2,094
	2		2	5
	<u>\$ 27</u>	<u>\$ 955</u>	<u>\$ 982</u>	<u>\$ 2,099</u>
	<u>\$ 1,377,150</u>	<u>\$ 349,159</u>	<u>\$ 1,726,309</u>	<u>\$ 3,446,832</u>
	\$ 73,124	\$	\$ 73,124	\$ 146,808
	<u>\$ 73,124</u>	<u>\$ 0</u>	<u>\$ 73,124</u>	<u>\$ 146,808</u>
	<u>\$ 2,773,747</u>	<u>\$ 382,462</u>	<u>\$ 3,156,209</u>	<u>\$ 6,165,802</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule of expenditures of federal awards (SEFA) presents the federal grant activity of the Department of Human Services (DHS) on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 Significant Accounting Policies

The SEFA is prepared in accordance with accounting principles generally accepted in the United States of America. The modified accrual basis of accounting is used in connection with federal expenditures reported on the SEFA. Differences will exist between federal expenditures shown on the SEFA and related federal expenditures on federal financial reports because of additional accrual amounts recorded after the preparation of the federal financial reports for the fiscal year.

Note 3 Grant Awards

- a. Federal claims exceeded their grant award authorizations in the program areas shown in the following table and were not reimbursed for the amounts in excess of the grant award. The expenditures not reimbursed could be reimbursed if program disallowances occur. The SEFA shows the net federal claim amounts (total federal claims less the amounts in excess of the grant awards).

The following claims exceeded their grant award authorizations (in thousands):

	Fiscal Year	
	2005-06	2004-05
Low-Income Home Energy Assistance (93.568)	\$ 4,066	\$ 2,658
Child Welfare Services: State Grants (93.645)	\$ 77,580	\$ 72,053
Community-Based Child Abuse Prevention Grants (93.590) (Children's Trust Fund)	\$ 2,745	\$ 1,501

- b. DHS moved grant award money from Temporary Assistance for Needy Families to the following programs as allowed by the Welfare Reform Plan (in thousands):

	Fiscal Year	
	2005-06	2004-05
From: Temporary Assistance for Needy Families (93.558)	\$(202,331)	\$(174,845)
To: Child Care and Development Block Grant (93.575)	\$ 134,344	\$ 130,938
Social Services Block Grant (93.667)	\$ 67,987	\$ 43,907

Note 4 Federal Share of Payroll and Fringe Benefit Expenditures

DHS's fiscal year 2003-04 financial statements and financial schedules reflected accrual entries that the Office of Financial Management, Department of Management and Budget, recorded for payroll and fringe benefit expenditures for September 26, 2004 through September 30, 2004. The federal share of these payroll and fringe benefit expenditures totaled \$4.5 million and was not reflected on DHS's fiscal year 2003-04 SEFA. DHS's fiscal year 2004-05 SEFA includes the \$4.5 million federal share of these payroll and fringe benefit expenditures.

Note 5 Other Footnotes

- a. Federal revenues as reported on DHS's financial statements and financial schedules will be different from the federal expenditures shown on the SEFA because of the following (in thousands):

	Fiscal Year	
	2005-06	2004-05
(1) Federal revenue (net) established through write-off of prior year decreasing claims per Section 212, Act 147, P.A. 2005, and Section 212, Act 344, P.A. 2004.	\$ 14,096	\$ 7,676
(2) Federal revenue (net) not established through write-off of prior year decreasing claims per Section 212, Act 147, P.A. 2005, and Section 212 of Act 344, P.A. 2004.	\$ 0	\$ 211
(3) Federal share of miscellaneous general purpose revenue recognized as federal revenue to offset prior year decreasing claims.	\$ 982	\$ 4,507
(4) Federal revenue related to federal claims for the purchase of services from other State departments was transferred from DHS to the applicable State agencies.	\$ 108,323	\$ 93,794
(5) The amount expended for the Food Stamps Program includes the State's share (General Fund/general purpose) of food stamp overissuance collections that are used to fund the cost of collection efforts. Collections in excess of the cost of collection efforts are used to fund the Executive Operations Appropriation Unit per Section 213, Act 147, P.A. 2005, and Section 213, Act 344, P.A. 2004. Total food stamp overissuance collections are:	\$ 1,300	\$ 1,861

- b. Federal revenue related to prior year federal increasing claims was transferred to general purpose appropriations in the amount of \$2.5 million and \$6.0 million for fiscal years 2005-06 and 2004-05, respectively. In fiscal year 2004-05, \$4.5 million of the total transferred relates to SEFA Note 4.

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

We have audited the financial schedules and financial statements of the Department of Human Services as of and for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules and financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule and financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted reportable conditions as described in the accompanying schedule of findings and questioned costs in Findings 2, 3, and 17.

This report is intended solely for the information and use of the State Child Abuse and Neglect Prevention Board, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with the first name "Thomas" and last name "McTavish" clearly legible.

Thomas H. McTavish, C.P.A.
Auditor General
April 30, 2007



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

Compliance

We have audited the compliance of the Department of Human Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2006. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the Department with Child Welfare Services: State Grants regarding matching, level of effort, and earmarking nor were we able to satisfy ourselves as to the Department's compliance with those requirements by other auditing procedures.

As described in Findings 5, 7 through 9, 11, 13, 15, and 16 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; subrecipient monitoring; and special tests and provisions that are applicable to its Violence Against Women Formula Grants, Temporary Assistance for Needy Families, Refugee and Entrant Assistance: State Administered Programs, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care: Title IV-E, Social Services Block Grant, and Chafee Foster Care Independence Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the previous paragraph, the Department of Human Services did not comply, in all material respects, with the requirements referred to in the first paragraph that are applicable to the Violence Against Women Formula Grants, CCDF Cluster, and Chafee Foster Care Independence Program for the two-year period ended September 30, 2006. Also, in our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Department of Human Services' compliance with the requirements of the Child Welfare Services: State Grants regarding matching, level of effort, and earmarking requirements and except for the noncompliance described in the previous paragraph, the Department of Human Services complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 4 through 21.

Internal Control Over Compliance

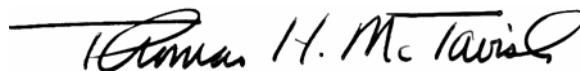
The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 3, 4, 6 through 18, and 20 through 22.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 3, 7 through 9, 11, 13, 15, and 16 to be material weaknesses.

This report is intended solely for the information and use of the State Child Abuse and Neglect Prevention Board, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
April 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules and Financial Statements

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? Yes

Reportable conditions* identified that are not considered to be material weaknesses? Yes

Noncompliance or other matters material to the financial schedules and/or financial statements? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except:

Adverse*

Violence Against Women Formula Grants

Child Care and Development Fund (CCDF) Cluster

Chafee Foster Care Independence Program

Qualified*

Temporary Assistance for Needy Families

Refugee and Entrant Assistance: State Administered Programs

Low-Income Home Energy Assistance

Child Welfare Services: State Grants

Foster Care: Title IV-E

Social Services Block Grant

* See glossary at end of report for definition.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?

Yes

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
16.588	Violence Against Women Formula Grants
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.566	Refugee and Entrant Assistance: State Administered Programs
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster
93.645	Child Welfare Services: State Grants
93.658	Foster Care: Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.674	Chafee Foster Care Independence Program

Dollar threshold used to distinguish between type A and type B programs: \$18,497,406

Auditee qualified as a low-risk auditee*?

No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules and Financial Statements

FINDING 4310701

1. Backup and Disaster Recovery Plans

The Department of Human Services (DHS), in conjunction with the Department of Information Technology (DIT), did not establish and implement comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, DHS could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

Executive Order No. 2001-3 transferred the responsibility for all information technology services to DIT. DIT assists DHS in maintaining its automated information systems, including disaster recovery and business resumption services. DHS, as the business owner, retains responsibility for data processed through its automated systems, including those developed in conjunction with DIT.

Our review of the backup and disaster recovery processes of selected DHS automated information systems used to support DHS's financial schedule and/or statement assertions and its compliance with federal laws and regulations disclosed:

- a. DHS and DIT did not document backup and disaster recovery plans for 5 of 7 systems housed in the client/server environment.
- b. DHS and DIT did not periodically review and update the backup and disaster recovery plans for the 2 systems housed in the client/server environment and 7 systems housed in the mainframe environment that had documented backup and disaster recovery plans.
- c. DHS and DIT did not periodically test backup and disaster recovery plans for any of the DHS systems we reviewed. Without periodic testing of backup and disaster recovery plans, DHS and DIT cannot ensure that the plans will work as intended during a disruption and that critical systems and business processes can be resumed in a timely manner.

- d. DHS did not ensure that business resumption plans for its local offices addressed interruptions in services resulting from the unavailability of computer services. For example, DHS did not document the manual delivery of critical client services in cases where computer and other electronic communication systems were unavailable.

Secure Michigan Initiative, a report issued by the DIT Office of Security and Disaster Recovery, recommends the establishment of documented and tested backup and disaster recovery plans to ensure that a department can recover and continue its operations in the event of a disaster. Also, the report indicates that one of the highest security risks in the State relates to a lack of formal disaster recovery, business resumption, and business continuity planning and implementation.

We reported a similar condition in our prior Single Audit*. DHS indicated in its June 2006 corrective action plan that DHS and DIT would develop backup and disaster recovery plans for the systems in the client/server and mainframe environments.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS, IN CONJUNCTION WITH DIT, ESTABLISH AND IMPLEMENT COMPREHENSIVE, UP-TO-DATE, AND TESTED BACKUP AND DISASTER RECOVERY PLANS FOR ITS CRITICAL AUTOMATED INFORMATION SYSTEMS.

FINDING 4310702

2. Children's Trust Fund (CTF)

DHS's internal control over fund-raising activities did not ensure that CTF assets are safeguarded, transactions are properly recorded, and errors are prevented or detected in a timely manner. As a result, the CTF is at risk for the misappropriation of assets and improper financial reporting.

* See glossary at end of report for definition.

Our review of 79 CTF revenue transactions disclosed:

- a. DHS did not maintain proper internal control over the fiscal year 2005-06 CTF auction. The fiscal year 2005-06 CTF auction revenue totaled \$311,600 with \$108,400 of the revenue collected at the auction. The cash, check, and credit card receipts did not reconcile to the sales transactions recorded. The sales transactions totaled \$112,500 but the receipts deposited only totaled \$108,400, resulting in a \$4,100 deficit. DHS staff voided a \$4,000 sale from the sales transactions to force the sales records to balance to the receipts deposited. DHS did not have documentation to support the propriety of the void to the sales records. In addition, the same individuals who were responsible for the CTF accounting and financial recording functions also maintained custody of the cash, counted and reconciled the cash, and deposited the cash from the auction.
- b. DHS did not maintain proper internal control over CTF inventory items. CTF fund-raising activities included selling pins and mugs. The sales of these items totaled \$3,900 in fiscal year 2004-05. DHS was unable to identify the amount of revenue related to these sales in fiscal year 2005-06 because the account coding had not been structured to identify these specific revenue amounts. DHS did not maintain documentation of a reconciliation of the number and type of items taken from inventory, number of items sold, revenue collected, and number of items returned to inventory. In addition, DHS did not conduct an inventory count in fiscal year 2005-06.

We reported a similar condition in our prior audit. DHS indicated in its June 2006 corrective action plan that it had implemented corrective action.

In addition to basic internal control principles, Section 18.1485 of the *Michigan Compiled Laws* requires that DHS establish and maintain an internal accounting and administrative control system which includes a plan of organization that provides separation of duties and responsibilities among employees and a system of recordkeeping procedures to control revenues.

Also, Part II, Chapter 12, Section 100 of the State of Michigan Financial Management Guide requires that DHS establish and maintain an inventory control program that includes limited access to inventory storage, use of requisition forms to release inventory, and approval of all adjustments to inventory records.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT CTF IMPROVE ITS INTERNAL CONTROL OVER FUND-RAISING ACTIVITIES TO HELP ENSURE THAT CTF ASSETS ARE SAFEGUARDED, TRANSACTIONS ARE PROPERLY RECORDED, AND ERRORS ARE PREVENTED OR DETECTED IN A TIMELY MANNER.

The status of the findings related to the financial schedules and financial statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING 4310703

3. Internal Control Over Federal Programs

DHS's internal control was not effective in ensuring federal program compliance. As a result, DHS has been subject to federal sanctions and disallowances in the past and is at risk of future significant federal sanctions and disallowances.

As described in the succeeding findings of this report, we identified known questioned costs of \$96.0 million and known and likely questioned costs totaling \$518.6 million. DHS expended a total of \$6.2 billion in federal awards during the two-year period ended September 30, 2006.

Internal control is a process designed to provide reasonable assurance regarding reliability of financial reporting, effectiveness* and efficiency* of operations, and compliance with laws and regulations.

Properly designed internal control supports effective methods to achieve federal program goals; increases efficiency by reducing the total resources needed to ensure that assets are safeguarded; and helps to ensure that sanctions, disallowances, and/or reductions of federal awards are avoided.

* See glossary at end of report for definition.

Our audit of DHS's 14 major federal programs and its schedule of expenditures of federal awards for the two-year period ended September 30, 2006 disclosed:

- a. DHS did not provide the oversight necessary to ensure that its internal control over various organizational units of its major federal programs was properly designed and effective. As a result, DHS operated 9 of its 14 major federal programs in material noncompliance with federal laws, regulations, contracts, and grant agreements. Our audit resulted in 3 adverse and 6 qualified opinions for the 14 major programs (see Findings 5, 7 through 9, 11 through 13, 15, and 16).

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* and Title 45, Parts 74 and 92 of the *Code of Federal Regulations (CFR)* state that DHS management is responsible for its internal control. These responsibilities include implementing a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with applicable laws and regulations. Also, DHS management is to ensure that a system is functioning as described and is modified as appropriate for changes in the condition of the system.

- b. DHS did not provide the oversight necessary to ensure that internal control weaknesses and resulting noncompliance of its federal programs disclosed in prior Single Audits were corrected effectively and in a timely manner. As a result, this audit report contains 19 (73%) of 26 recommendations repeated from our prior report for the two-year period ended September 30, 2004, many of which were also reported in earlier DHS Single Audits in addition to this finding, see Findings 4, 5, 7 through 9, 11, 13, 14, 16, 17, and 19 through 22.

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* and Title 45, Parts 74 and 92 of the *Code of Federal Regulations (CFR)* state that DHS management is responsible for its internal control. Also, DHS management is to ensure that a system is functioning as described and is modified as appropriate for changes in the condition of the system.

- c. DHS had not established a process to ensure that for-profit subrecipients and vendors with program compliance responsibilities were monitored to ensure program compliance.

Our review of DHS procedures for determining whether a subrecipient or vendor relationship existed disclosed that DHS generally classified for-profit entities as vendors. DHS informed us that it classified the for-profit entities as vendors because the entities are not required to receive Single Audits.

In the Promoting Safe and Stable Families Program (*CFDA* 93.556) and the Refugee and Entrant Assistance: State Administered Programs (*CFDA* 93.566), we noted contracts with for-profit subrecipients and vendors with program compliance responsibilities that were not monitored for program compliance. As a result, we have reported exceptions and questioned costs related to the lack of program compliance by the for-profit subrecipients and vendors.

OMB Circular A-133, Section 210, requires DHS to establish procedures to ensure compliance by for-profit subrecipients and vendors with program compliance responsibilities.

We reported a similar condition in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that it had complied with the recommendation through meetings with program managers and the use of an audit recommendation tracking system.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPLEMENT EFFECTIVE INTERNAL CONTROL TO ENSURE FEDERAL PROGRAM COMPLIANCE.

FINDING 4310704

4. Food Stamp Cluster, CFDA 10.551 and 10.561

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 8MI400067 2MI400100 2MI420122 EBT-04 EBT-05 EBT-06	Award Period: 09/27/2001 - 06/01/2005 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: (\$4,788)

DHS's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, reporting, and special tests and provisions (issuance document security).

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in Food Stamp Cluster awards.

Federal expenditures for the Food Stamp Cluster totaled \$2.5 billion for the two-year period ended September 30, 2006. We reported negative questioned costs totaling \$4,788.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not ensure that the correct payroll distribution rates were applied to cost pools. We identified negative questioned costs of \$4,788 (see Finding 18 and related recommendation).

b. Cash Management

DHS's internal control did not ensure that it submitted complete and accurate information to the Michigan Department of Treasury in its annual federal Cash Management Improvement Act (CMIA) report (see Finding 21, item b.(3), and related recommendation).

c. Reporting

DHS's internal control did not ensure the reliability of significant information it used in reports for the Food and Nutrition Service (FNS), U.S. Department of Agriculture. Our review of DHS reporting procedures disclosed:

- (1) DHS did not ensure that 3 (60%) of 5 local fiscal offices reviewed reconciled their recoupment activity report (GH-280) to source documents. DHS used the GH-280 to prepare its quarterly status of claims against households report (FNS-209). As a result, DHS did not verify the accuracy of amounts presented on the FNS-209.

Federal regulations 7 *CFR* 273.18(a) and 273.18(m) require DHS to create and maintain a system of records for monitoring claims against households that received more benefits than they were entitled to receive. Also, federal regulation requires DHS to reconcile summary balances reported to individual supporting records on a quarterly basis. DHS procedures require local fiscal offices to reconcile the GH-280 on a monthly basis and maintain the reconciliations for three years or one year subsequent to a federal audit.

- (2) DHS did not reconcile amounts contained in its food stamp summary report (FT-471) to data contained in the Client Information Management System and the Data Warehouse. DHS used the FT-471 to prepare the issuance reconciliation report (FNS-46). As a result, DHS did not verify the accuracy of amounts presented on the FNS-46.

Federal regulation 7 *CFR* 3016.20(b)(6) requires accounting records to be supported by source documentation.

d. Special Tests and Provisions

DHS's internal control did not ensure that it issued Food Stamp Cluster benefits to only eligible grantees.

Our review disclosed that DHS did not account for all issuances of electronic benefits transfer (EBT) bridge cards* issued by its local offices through a reconciliation process. Failure to reconcile the local office issuance logs with

* See glossary at end of report for definition.

the EBT contractor report increases the risk that DHS could issue EBT bridge cards to someone other than the intended grantee.

DHS did not have a process in place to reconcile local office EBT bridge cards issuance logs with the report of EBT cards authorized by the EBT contractor. We noted that 5 (71%) of 7 local offices reviewed had discrepancies between the number of EBT bridge cards reported as issued on the local office issuance logs and the number reported as authorized by the EBT contractor.

Federal regulation 7 *CFR* 274.4 requires that DHS shall account for all issuances through a reconciliation process. Also, federal regulation 7 *CFR* 274.11 requires DHS to maintain issuance, inventory, reconciliation, and other accountability records for a period of three years.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that implementation of the regional/consolidated fiscal units would increase compliance with the federal reporting and reconciliation requirements.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOOD STAMP CLUSTER TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING REPORTING AND SPECIAL TESTS AND PROVISIONS.

FINDING 4310705

5. Violence Against Women Formula Grants (VAW), *CFDA* 16.588

U.S. Department of Justice	<i>CFDA</i> 16.588: Violence Against Women Formula Grants
Award Number: 2003-WF-BX-0193 2004-WF-AX-0017	Award Period: 04/01/2003 - 03/31/2005 04/01/2004 - 03/31/2006
	Questioned Costs: \$ 2,366,028

DHS did not comply with federal laws and regulations regarding matching, level of effort, and earmarking for the VAW Program. We considered this to be material

noncompliance. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the VAW Program.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in VAW Program awards.

Federal expenditures for the VAW Program totaled approximately \$7.3 million for the two-year period ended September 30, 2006. We questioned costs totaling \$2,366,028.

Our review of expenditures and program files disclosed that DHS was required to provide matching funds of \$2,528,333 during fiscal years 2005-06 and 2004-05. DHS provided \$162,305 of the matching funds and required nonprofit, nongovernmental victim services programs to provide the remaining \$2,366,028 of matching funds. As a result, we questioned costs totaling \$2,366,028.

Federal regulation 28 *CFR* 90.17 requires a 25% nonfederal match of each grant award. In addition, it states that nonprofit, nongovernmental victim services programs funded through subgrants are exempt from the match requirement; all other subgrantees must provide a 25% match.

In fiscal years 2005-06 and 2004-05, DHS required all programs that received a subgrant to provide the 25% nonfederal match regardless of whether they were a nonprofit, nongovernmental victim services program. DHS informed us that it followed the guidance provided by the Office on Violence Against Women, U.S. Department of Justice; however, this guidance was not consistent with the federal program regulations.

DHS received a letter from the director of the Office on Violence Against Women in 2002 stating that it is within the discretion of state grantees to require any or all subgrantees, including victim services program subgrantees, to satisfy the matching requirement. The letter further explained that, while the current federal regulations prohibit state grantees from passing on any portion of the 25% match requirement to any nonprofit, nongovernmental victim services program subgrantees, the Office on Violence Against Women was drafting a proposed federal regulation change allowing grantees to require all subgrantees to provide a portion of the overall 25% match. We noted that the Office on Violence Against Women published a proposed federal regulation change in 2003 that would have

permitted state grantees to require nonprofit, nongovernmental victim services to provide a portion of the overall 25% match. However, the proposed federal regulation was not adopted as a final federal regulation.

In May 2007, subsequent to the completion of our audit fieldwork, DHS contacted the Office on Violence Against Women seeking clarification about the match requirement. In June 2007, the Office responded that it would not be requesting that DHS repay the \$2,366,028 in questioned costs because DHS had followed the guidance in the 2002 letter. The letter also informed DHS that the federal law which authorizes the VAW Program was amended in 2005 to state that no matching funds shall be required for any grant or subgrant made to victim services providers. The Office indicated that this provision would take effect for federal fiscal year 2006 grants.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS COMPLY WITH FEDERAL LAWS AND REGULATIONS REGARDING MATCHING, LEVEL OF EFFORT, AND EARMARKING FOR THE VAW PROGRAM.

FINDING 4310706

6. Promoting Safe and Stable Families (PSSF), CFDA 93.556

U.S. Department of Health and Human Services	CFDA 93.556: Promoting Safe and Stable Families
Award Number: G 04 01 MI 00FP G 05 01 MI 00FP G 06 01 MI 00FP	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$42,652

DHS's internal control over the PSSF Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of PSSF Program awards.

Federal expenditures for the PSSF Program totaled \$28.4 million for the two-year period ended September 30, 2006. The Department distributed \$12.6 million to PSSF Program subrecipients during this period. We identified known questioned costs of \$42,652 and known and likely questioned costs totaling \$230,684.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not ensure that payroll costs charged to the PSSF Program were properly documented. We questioned costs of \$42,652 (see Finding 19, items a. and b., and related recommendation).

b. Subrecipient Monitoring

DHS needs to improve its internal control over its monitoring of PSSF Program subrecipients, including for-profit subrecipients, and vendors with program compliance responsibilities to ensure that they used federal awards for authorized purposes in compliance with federal laws and regulations.

DHS had approximately 1,100 contracts with subrecipients and vendors for PSSF in fiscal years 2005-06 and 2004-05 combined. We reviewed the monitoring of 20 subrecipients and 2 vendors with program compliance responsibilities. The PSSF Program was a major federal program for only 1 of the 9 subrecipients that had a Single Audit performed in fiscal years 2005-06 and 2004-05. Our review of the Federal Audit Clearinghouse database disclosed that 9 of the subrecipients did not have a Single Audit performed for fiscal years 2005-06 and 2004-05. As a result, DHS could not rely on the Single Audits to ensure that the subrecipients used PSSF funds in compliance with federal laws and regulations. The 2 vendors with program compliance responsibilities would not have received Single Audits.

Our review of DHS's program monitoring disclosed that DHS did not perform on-site reviews for 21 (95%) of the 22 subrecipients and vendors with program compliance responsibilities, DHS did not obtain the program performance documentation from 13 (57%) of 23 transactions related to the 20 subrecipients and 2 vendors with program compliance responsibilities. As a result, DHS did not obtain assurance that the subrecipients and vendors with program compliance responsibilities used PSSF funds in compliance with federal laws and regulations.

OMB Circular A-133, Section 400(d), requires DHS to monitor the activities of its subrecipients to ensure that they used federal awards in compliance with federal laws and regulations. OMB Circular A-133, Section 210(e), also requires DHS to establish requirements, as necessary, to ensure compliance by for-profit subrecipients. In addition, OMB Circular A-133, Section 210(f), requires DHS to ensure compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

RECOMMENDATION

We recommend that DHS improve its internal control over the PSSF Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 4310707

7. Temporary Assistance for Needy Families (TANF), CFDA 93.558

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G 04 01 MI TANF G 05 01 MI TANF G 06 02 MI TANF	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$81,874,642

DHS's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with compliance requirements related to activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions (child support noncooperation, Income Eligibility and Verification System (IEVS), penalty for refusal to work, and adult custodial parent of child under six when child care not available). As a result, we issued a qualified opinion on compliance with federal laws and regulations for the TANF Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TANF Program awards.

Federal expenditures for the TANF Program totaled \$1.3 billion for the two-year period ended September 30, 2006. We identified known questioned costs of \$81,874,642 and known and likely questioned costs totaling \$173,297,642.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that TANF Program expenditures incurred were for activities allowed. As a result, we questioned costs totaling \$81,819,459 in this finding. Our review disclosed:

- (1) DHS claimed foster care expenditures in the TANF Program that the State did not incur. We questioned costs of \$81,819,459.

Section 400.117a(4)(a) of the *Michigan Compiled Laws* requires DHS to share equally in the cost of foster care with counties for children not funded under the Foster Care - Title IV-E Program. In an effort to maximize State recovery of TANF Program funds, the Office of the State Budget sought advice from a private attorney regarding the State's ability to draw TANF Program funds based on county foster care program expenditures. The private attorney advised the Office of the State Budget that this would be allowable; consequently, DHS drew down the TANF Program funds based on county foster care program expenditures and retained the funds for other purposes. DHS did not contact the federal cognizant agency (the U.S. Department of Health and Human Services) before implementing this practice.

We do not consider these county expenditures to be eligible for federal recovery by DHS. Federal regulation 45 *CFR* 260.30 defines an expenditure as any amount of federal TANF or state maintenance of effort (MOE) funds that a state expends, spends, pays out, or disburses consistent with the requirements of parts 260 - 265. Federal regulation 45 *CFR* 92.3 defines a state as any agency of the state exclusive of local governments and further defines a local government to include a county.

Consequently, because these are county expenditures, the State is not entitled to recovery of TANF Program funds for these expenditures.

- (2) As discussed in the Allowable Costs/Cost Principles section (item b.(3)(a)) of this finding, DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 5 (8%) of 63 expenditures reviewed. We questioned the costs for 4 of these expenditures in item b.(3) of this finding.

Federal regulation 45 *CFR* 263.11(a)(1) states that funds may be used in any manner reasonably calculated to achieve the purposes of the program. The first two of these purposes are to provide assistance to needy families so that children may be cared for in their own homes or the homes of relatives and to end the dependence of needy "parents" on government benefits by promoting job preparation, work, and marriage. Federal regulation 45 *CFR* 263.2(b) states that funds claimed as maintenance of effort expenditures must be expended on needy families. DHS procedures required designated forms to be completed to help ensure that assistance was provided only to needy families.

- (3) As discussed in the Eligibility section (item d.(3)) of this finding, DHS's internal control did not prevent TANF Program day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$9,016 in item d.(3) of this finding.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that TANF Program expenditures met the allowable cost principles of Appendix A of federal regulation 2 *CFR* 225 (OMB Circular A-87*). As a result, we questioned costs totaling \$25,434. Our review disclosed:

- (1) As discussed in the Activities Allowed or Unallowed section (item a.(1)) of this finding, DHS claimed expenditures in the TANF Program that were not incurred by the State. We questioned the costs in item a.(1) of this finding.
- (2) DHS could not reconcile supporting expenditure data to the foster care expenditures claimed in the TANF Program during fiscal year 2004-05. DHS did not maintain detail to support the eligible foster care expenditures claimed in the TANF Program. DHS had to re-create the supporting detail for the expenditures and could not account for \$906,715 claimed in the TANF Program. We questioned the costs for these expenditures for other noncompliance in the Activities Allowed or Unallowed section (item a.(1)) of this finding.
- (3) DHS did not maintain case file documentation to support client eligibility, authorization for client services, or the amount of the assistance provided for 5 (8%) of 63 expenditures reviewed. Of the 63 expenditures, we reviewed case file documentation for 55 cases. We questioned costs of \$321. Our review disclosed:
 - (a) DHS did not maintain any case file documentation to support the recipients' need and eligibility for assistance in 4 cases. DHS provided cash assistance to the 4 families.
 - (b) DHS did not authorize an adoption subsidy payment that was consistent with the determination of care rate for the adopted child.
- (4) DHS did not properly authorize 1 (2%) of 63 expenditures reviewed. This expenditure was approved by an individual who did not have the authority to approve the expenditure. We questioned costs of \$16,494.

* See glossary at end of report for definition.

- (5) As discussed in the Eligibility section (item d.(2)) of this finding, DHS issued TANF-funded adoption subsidy payments to an adoptive parent who was convicted of a specified crime that rendered the parent ineligible to receive TANF Program assistance. We questioned the costs in item d.(2) of this finding.
- (6) DHS incorrectly charged 2 adoption subsidy payments to the TANF Program. DHS should have charged these expenditures to the Adoption Assistance Program. We questioned costs of \$1,567.
- (7) As discussed in the Eligibility section (item d.(3)) of this finding, DHS's internal control did not prevent TANF Program day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$9,016 in item d.(3) of this finding.
- (8) DHS needs to improve its internal control over the daily foster care rate used to claim non-Title IV-E foster care expenditures in the TANF Program for children in out-of-home living arrangements less than 365 days. During our review, we noted that DHS based its claimed expenditures for children initially funded by the counties using estimated daily foster care rates. DHS did not analyze the estimated daily foster care rates to determine if the non-Title IV-E foster care expenditures claimed in the TANF Program were reasonable. As a result of our review, DHS conducted the analysis for the audit period and adjusted the fiscal year 2005-06 claimed expenditures accordingly.
- (9) DHS did not ensure that payroll costs charged to the TANF Program were properly documented. We questioned costs of \$1,955 (see Finding 19, item a., and related recommendation).
- (10) DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools. We questioned costs of \$5,096 (see Finding 18 and related recommendation).

Appendix A of federal regulation 2 CFR 225 requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, and be consistent with policies and procedures that apply to both the federal award and other activities of the

state. Also, DHS policies and procedures require a client-signed assistance application (DHS-1171) and documentation of eligibility determination on the Local Office Automation II (LOA2) budget for all clients at initial application for benefits and at established re-determination periods. DHS policies also require case records to contain all forms, documents, and other evidence relevant to the client's current and past eligibility. Because DHS did not maintain required case file documentation, it could not ensure or demonstrate compliance with federal requirements related to activities allowed or unallowed, allowable costs/cost principles, and eligibility for the TANF Program.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Cash Management

DHS's internal control did not ensure that it drew the federal funds for the TANF Program in accordance with the federal CMIA agreement. In addition, DHS did not submit complete and accurate information to the Michigan Department of Treasury in its annual federal CMIA report (see Finding 21, items a.(3) and b.(2), and related recommendation).

d. Eligibility

Our review disclosed:

- (1) DHS's internal control did not ensure that assistance and services were provided only to eligible recipients:

As discussed in the Allowable Costs/Cost Principles section (item b.(3)(a)) and Matching, Level of Effort, and Earmarking section (item e.(1)(a)) of this finding, DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 5 (8%) of 63 expenditures reviewed. We questioned costs for 4 of these expenditures in the Allowable Costs/Cost Principles section (item b.(3)(a)) of this finding.

DHS could not ensure or demonstrate compliance with federal laws and regulations related to a family's eligibility for assistance benefits because it did not maintain documentation, such as the DHS-1171 and the LOA2 budget.

Federal regulation 45 *CFR* 260.20 requires a family to be needy in order to be eligible for TANF Program assistance and job preparation services. To determine if a family is needy, DHS's procedures require designated forms to be completed and additional case file documentation to be maintained as necessary to help ensure that TANF Program federal funds will be used only for eligible families and purposes. DHS's TANF State Plan states that TANF Program assistance recipients are referred to the Work First Program for job preparation services.

- (2) DHS's internal control did not prevent it from issuing TANF-funded adoption subsidy payments to an adoptive parent convicted of a specified crime rendering the parent ineligible to receive TANF Program assistance. We questioned costs totaling \$14,456.

Title 42, section 862a of the *United States Code (USC)* states that individuals convicted of specified crimes are ineligible for TANF Program assistance.

- (3) DHS's internal control did not prevent TANF Program day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$9,016:
 - (a) DHS authorized and issued day-care payments to, or on behalf of, 19 deceased providers, 9 deceased children, and 8 deceased parents/substitute parents totaling \$7,748.
 - (b) DHS authorized and issued day-care payments to, or on behalf of, 9 incarcerated providers and 4 incarcerated parents/substitute parents totaling \$1,268.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these

weaknesses or to provide for effective internal control over federal laws and regulations related to eligibility.

e. Matching, Level of Effort, and Earmarking

Our review disclosed:

- (1) DHS needs to improve its internal control over TANF's MOE expenditures to ensure that the expenditures are only for eligible needy families:
 - (a) DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 5 (11%) of 44 MOE expenditures. We reported the federal share of questioned costs for 4 of these expenditures in the Allowable Costs/Cost Principles section (item b.(3)(a)) of this finding.
 - (b) DHS did not establish an interagency agreement with the Michigan Public Service Commission (MPSC) for MPSC's expenditures claimed as TANF's MOE. An interagency agreement would help reduce the risk of MPSC reporting improper expenditures that do not meet TANF Program eligibility requirements for MOE.

Federal regulation 45 *CFR* 263.2(b) requires that funds claimed as MOE expenditures must be expended on needy families. To determine if a family is needy, DHS's procedures require designated forms to be completed and additional case file documentation to be maintained as necessary to help ensure that TANF Program federal funds will be used only for eligible families and purposes.

- (2) DHS's internal control did not ensure that the total number of months a recipient received TANF Program assistance was appropriately counted toward the 60-month federal TANF Program funding limit. As a result, DHS could not identify all months of TANF Program assistance that should have been counted toward the 60-month federal TANF Program funding limit. Our review disclosed:
 - (a) DHS did not include all months a recipient received TANF Program assistance in its calculation of the number of cases exceeding the federal TANF Program funding limit.

DHS tracks the number of months a recipient received TANF Program assistance by recipient and by case number. DHS used the number of TANF Program assistance months for an adult recipient's case number to determine how many cases exceeded the 60-month federal TANF Program funding limit. Adult recipients who received new case numbers did not have previous months of federal TANF Program assistance counted toward the 60-month limit. We noted that 5,255 TANF Program assistance recipients had multiple case numbers and were the primary adult recipient on each case. Of these 5,255 recipients, 983 (19%) had a cumulative number of TANF Program assistance months that reached or exceeded 60 months during the audit period.

- (b) DHS's Client Information Management System (CIMS) does not have an indicator to determine if an adult is the spouse of an adult head-of-household.
- (c) DHS, in conjunction with the Department of Information Technology (DIT), needs to improve internal control to ensure that changes made to the queries used to create and update the TANF Program assistance counters are tracked. All DIT employees have read and write access to the queries.

Federal regulation 45 *CFR* 264.1(a) states that a state may not use any of its federal TANF Program funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive). Federal regulation 45 *CFR* 264.1(c) allows states to extend assistance paid for by federal TANF Program funds beyond the five-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year. DHS's TANF State Plan states that Michigan does not have a time limit on TANF Program assistance. Families in need of assistance beyond the 60-month limit and exceeding the 20% limitation will be State-funded as long as they continue to meet program requirements.

f. Subrecipient Monitoring

Our review disclosed:

- (1) DHS's internal control did not ensure that 2 (25%) of the 8 TANF Program subrecipients reviewed were monitored during the award period to ensure that they complied with TANF Program federal requirements. DHS distributed \$304.0 million to TANF Program subrecipients during this period.

DHS TANF Program management did not review and approve billings from one subrecipient to ensure compliance with the grant agreement. DHS also did not conduct program monitoring of the other subrecipient when the TANF Program was not audited as a major federal program in the subrecipient's most recent Single Audit.

Public Law 104-156, Section 7502(f)(2), and OMB Circular A-133, Section 400(d)(3), require DHS to monitor the activities of subrecipients as necessary to ensure that the federal award is used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

- (2) DHS's internal control did not ensure that it always maintained supporting documentation of issuing management decisions on TANF Program subrecipient Single Audit findings (see Finding 20 and related recommendation).

g. Special Tests and Provisions

DHS's internal control did not ensure that it complied with TANF Program federal laws and regulations regarding special tests and provisions requirements for child support noncooperation, Income Eligibility and Verification System (IEVS), penalty for refusal to work, and adult custodial parent of child under six when child care is not available. As a result, we questioned costs totaling \$6,277. Our review disclosed:

- (1) DHS's internal control did not ensure that TANF Program families who did not cooperate with establishing paternity and child support orders were sanctioned as required by federal law and DHS's TANF State Plan. We questioned costs totaling \$2,955.

We reviewed 53 case files of TANF Program families identified as not cooperating with paternity and child support order establishment procedures and noted that DHS did not appropriately sanction the family in 14 (26%) of the 53 cases.

Federal regulation 45 *CFR* 264.30 states that DHS must deduct an amount equal to not less than 25% from the TANF Program assistance that would otherwise be provided to the family of the individual and may deny the family any TANF Program assistance. DHS's TANF State Plan states that failure to cooperate in establishing paternity and pursuing child support for dependent children will result in TANF Program ineligibility for a one-month minimum.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (child support noncooperation). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (child support noncooperation).

- (2) DHS's internal control did not ensure that it complied with certain IEVS requirements. We questioned costs totaling \$1,099.

DHS prepares reports to disseminate IEVS information from various data matches to the recipients' case workers to be used in determining the recipients' need and eligibility for TANF Program assistance. We noted:

- (a) DHS did not retain IEVS information to support that data was received or reports were prepared for case workers during the audit period.
- (b) DHS did not use the Social Security Administration's (SSA) beneficiary earnings exchange record of federal tax return information to determine the recipients' need and eligibility for TANF Program assistance.
- (c) DHS did not ensure that recipients' correct social security numbers (SSNs) were properly considered for other IEVS data matches. We

reviewed 10 recipients' cases identified as not having an SSN that matched SSA's records. DHS did not update CIMS or did not maintain documentation that the SSN was verified in 5 (50%) of the 10 cases. In 1 instance (10%), DHS updated CIMS with the correct SSN but did not document its actions in the case file until requested by audit.

- (d) DHS needs to improve its internal control over case workers documenting action on IEVS information in the case file.

We reviewed 28 TANF Program assistance cases and noted that DHS did not maintain documentation to support that the IEVS information was reviewed, verified, and used to determine the recipients' need and eligibility for TANF Program assistance for 17 (61%) of 28 cases.

Federal regulation 45 *CFR* 205.55 requires states to request information through IEVS for wages, unemployment compensation, SSA information, and unearned income from the Internal Revenue Service at the first opportunity following receipt of an application for assistance. Federal regulation 45 *CFR* 205.56 requires states to use the IEVS information to determine an individual's eligibility for assistance under the state plan and the amount of assistance.

- (3) DHS did not always terminate assistance for TANF recipients who refuse to engage in work and are not subject to exceptions established by DHS. We questioned costs totaling \$2,223.

We reviewed 57 case files of TANF families in which a recipient was identified as not cooperating in work programs. In 11 (19%) of the 57 case files, DHS did not provide evidence that assistance had been terminated as required by federal regulation.

Federal regulation 45 *CFR* 261.14 requires DHS to reduce or terminate assistance of those recipients who refuse to engage in work and are not subject to exceptions established by DHS. DHS's TANF State Plan states that if a person fails at application to participate in employment-related activities without good cause, the family is ineligible

for assistance and, if a recipient fails to participate in employment-related activities without good cause, the family loses its eligibility for assistance for a minimum of one calendar month.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (penalty for refusal to work). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (penalty for refusal to work).

- (4) DHS's internal control did not ensure that case workers documented the reason that TANF Program assistance was terminated for recipients with a child less than six years of age.

We reviewed 11 case files for TANF Program families with a child less than six years of age that were terminated from TANF Program assistance for refusal to engage in work. In 3 (27%) of the 11 case files, DHS did not maintain documentation to support the reason assistance was terminated. As a result, we could not determine if the recipient disclosed an inability to obtain child care when TANF Program assistance was terminated.

Federal regulation 45 *CFR* 261.15 states that a state may not terminate assistance for an individual's refusal to engage in required work if the individual is a single custodial parent caring for a child under age six who has a demonstrated inability to obtain needed child care. DHS's procedures state that the reasons for demonstrating inability to obtain needed child care are that child care appropriate for the child's age and conditions could not be located, child care is not affordable, child care is not within a reasonable distance, or the provider does not meet State and local standards.

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND SPECIAL TESTS AND PROVISIONS.

FOR THE SECOND CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

We further recommend that DHS improve its internal control over the TANF Program to ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking.

FINDING 4310708

8. Refugee and Entrant Assistance: State Administered Programs (REAP), CFDA 93.566

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5110 G 04 AA MI 5100 G 04 AA MI 5110 G 05 AA MI 5100 G 05 AA MI 5110 G 06 AA MI 5100	Award Period: 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2007 10/01/2005 - 09/30/2007
	Questioned Costs: \$916,256

DHS's internal control over REAP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, period of availability of federal funds, and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on the compliance with federal laws and regulations for REAP.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in REAP awards.

Federal expenditures for REAP totaled \$12.7 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$916,256 and known and likely questioned costs totaling \$1,371,057.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed according to REAP federal laws and regulations. As a result, we identified known questioned costs totaling \$1,362. Our review disclosed:

- (1) DHS paid for nonscheduled services in 4 (15%) of 27 Unaccompanied Refugee Minors Program (UMP) expenditures reviewed that were not allowed by federal regulation 45 *CFR* 400.112 and DHS policies. We questioned costs of \$1,362.

Federal regulation 45 *CFR* 400.112 requires DHS to provide refugee child welfare services according to DHS's child welfare standards, practices, and procedures.

- (2) As discussed in the Allowable Costs/Cost Principles section (items b.(1) through b.(3)) of this finding, DHS did not maintain adequate documentation for 7 (18%) of 38 REAP expenditures reviewed as required by federal regulations 45 *CFR* 400.28, 45 *CFR* 400.150, and 45 *CFR* 400.152. As a result, DHS could not support that the expenditures were for allowable activities. We questioned costs of \$314,104, \$22,012, and \$31 in items b.(1), b.(2), and b.(3) in this finding, respectively.
- (3) DHS did not charge \$813 of Refugee Social Services (RSS) expenditures to the appropriate REAP grant. DHS charged RSS expenditures related to vehicle purchases and repairs to the Cash, Medical, and Administration (CMA) grant and coded the expenditures as Refugee Cash Assistance (RCA).

REAP's CMA grants are awarded to states to reimburse costs of providing RCA. RCA is monthly cash benefits for refugees who do not meet the eligibility requirements of the TANF or Supplemental Security

Income (SSI) Programs. REAP's RSS grants are awarded to states to help refugees become economically self-sufficient primarily through the provision of employment services. Federal regulations 45 *CFR* 400.154 and 45 *CFR* 400.155 allow states to use RSS grants to provide employment services, which included transportation related services necessary for participation in an employability service or for the acceptance or retention of employment.

- (4) As discussed in the Allowable Costs/Cost Principles section (item b.(4)) of this finding, DHS inappropriately charged Refugee and Entrant Assistance: Targeted Assistance Grants (*CFDA* 93.584) expenditures to REAP. We questioned these costs of \$251 in item b. (4) of this finding.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over REAP activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that REAP expenditures met the allowable cost principles outlined in Appendix A of federal regulation 2 *CFR* 225. As a result, we questioned costs totaling \$674,787. Our review disclosed:

- (1) DHS did not maintain documentation to support services provided to or goods purchased for unaccompanied refugee minors in 13 (48%) of 27 UMP expenditures. Federal regulation 45 *CFR* 400.28 requires that DHS provide for the maintenance of operational records as necessary for federal monitoring of the State's REAP. We questioned costs of \$650,846.
- (2) DHS did not maintain documentation that identified eligible refugees and allowable services for pharmaceutical charges in 1 (17%) of 6 Refugee Medical Assistance (RMA) expenditures reviewed. We questioned costs of \$22,012.

Federal regulation 45 *CFR* 400.28 requires DHS to maintain documentation of services and assistance provided, including identification of individuals receiving those services.

- (3) DHS did not maintain documentation to support refugees' eligibility in 1 (20%) of 5 RCA expenditures reviewed. Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.150, and 45 *CFR* 400.152 require refugees to meet specific eligibility requirements to be eligible for REAP benefits. For the 1 RCA expenditure, DHS did not maintain any case file documentation. However, federal regulation 45 *CFR* 400.28 requires that DHS provide for the maintenance of operational records as necessary for federal monitoring of the State's REAP. We questioned costs of \$31.
- (4) DHS inappropriately allocated Refugee and Entrant Assistance: Targeted Assistance Grants (*CFDA* 93.584) expenditures to REAP. We questioned costs of \$251.
- (5) DHS did not ensure that payroll costs charged to REAP were properly documented. We questioned costs of \$1,653 (see Finding 19, item a., and related recommendation).
- (6) DHS did not ensure that the correct payroll distribution rates were applied to cost pools. We identified negative questioned costs of \$6 (see Finding 18 and related recommendation).

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over REAP allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Eligibility

DHS's internal control did not ensure that REAP benefits were issued only to refugees eligible for services according to federal laws and regulations.

DHS did not document eligibility information for 2 (7%) of 30 UMP and RCA expenditures reviewed. As a result, DHS could not provide support that the expenditures were paid to refugees eligible for REAP's CMA grants. We

questioned costs of \$21,543, of which \$21,512 and \$31 were questioned in the Allowable Costs/Cost Principles section (items b.(1) and b.(3)) of this finding, respectively.

Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.150, and 45 *CFR* 400.152 require refugees to meet immigration status and identification requirements to be eligible for CMA grants.

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that it planned to correct the condition through the implementation of a case file review process.

d. Period of Availability of Federal Funds

DHS's internal control did not ensure that UMP expenditures were reported and reimbursed within the correct CMA federal fiscal year that the grant was awarded to DHS for 7 (26%) of 27 UMP expenditures. We questioned costs of \$18,958.

DHS claimed and received reimbursement for prior year UMP services from its CMA grants awarded in the following federal fiscal year.

Federal regulation 45 *CFR* 400.210(a) does not allow DHS to receive reimbursement for prior year services from the grant awarded in the following federal fiscal year with respect to CMA funds used for UMP services.

We reported a similar condition in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that it would establish specific accounting coding for each fiscal year and would establish accounts payable in fiscal year 2005-06.

e. Procurement and Suspension and Debarment

DHS's internal control did not ensure that 1 contract for REAP was signed by authorized representatives of all parties before services began. We identified questioned costs totaling \$221,149 (see Finding 17, item b., and related recommendation).

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER REAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

FOR THE SECOND CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER REAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PERIOD OF AVAILABILITY OF FEDERAL FUNDS.

FINDING 4310709

9. Low-Income Home Energy Assistance, CFDA 93.568

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 04 B1 MI LIEA G 05 B1 MI LIEA G 06 B1 MI LIEA	Award Period: 09/30/2001 - 03/31/2005 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$14,388

DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; reporting; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance regarding activities allowed or unallowed and allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for LIHEAP.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in LIHEAP awards.

Federal expenditures for LIHEAP totaled \$264.8 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$14,388 and known and likely questioned costs totaling \$36,922,896.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed. As a result, we questioned costs in the amount of \$424. Our audit tests disclosed:

- (1) DHS did not maintain applications to document that the client requested services or made accurate disclosures in 5 (17%) of 30 State Emergency Relief (SER) energy expenditures reviewed. We questioned costs totaling \$2,101, of which \$1,677 is questioned in the Allowable Costs/Cost Principles section (item b.(1)) of this finding.

Federal law 42 USC 8624(b) allows DHS to use LIHEAP funds to intervene in energy crisis situations of low-income households. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income and emergency need disclosures complied with federal allowable activity requirements.

- (2) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(c)) of this finding, DHS did not maintain documentation to support a valid energy related emergency in 4 (13%) of 30 SER energy expenditures reviewed. We questioned the costs in item b.(1) of this finding.

Federal law 42 USC 8624(b)(1) allows DHS to use LIHEAP funds to intervene in household energy related emergencies.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that case documentation would be reviewed as part of local office administrative reviews.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure the propriety of LIHEAP expenditures. As a result, we questioned costs totaling \$4,721. Our audit tests disclosed:

- (1) DHS did not ensure that LIHEAP expenditures met the requirements of federal regulation 45 *CFR* 96.30. We questioned costs of \$5,479.

Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that DHS did not use LIHEAP funds in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations. Our review disclosed:

- (a) DHS did not maintain documentation to support that all requirements of DHS's LIHEAP State Plan were met for 9 (30%) of 30 SER energy expenditures reviewed.
 - (b) DHS did not properly authorize the client's energy related emergency assistance payment for 7 (23%) of 30 SER energy expenditures reviewed.
 - (c) DHS did not maintain documentation to support the energy related emergency and the payment amount issued for 5 (17%) of 30 SER energy expenditures reviewed.
 - (d) DHS did not ensure that SER energy payments resolved the DHS client's energy related emergency for 1 (17%) of 6 SER energy expenditures reviewed. In this instance, DHS made two SER energy payments for the same energy related emergency within a 14-day time period.
- (2) DHS needs to improve its internal control over the monitoring of its home heating credit (HHC) vendor to help ensure the propriety and compliance of HHC transactions. We questioned costs totaling \$210.

OMB Circular A-133, Section 210(f), requires DHS to ensure compliance for HHC transactions for which the vendor is responsible for program compliance or for review of vendor records to determine program

compliance. DHS established an interagency agreement with the Department of Treasury that specified that the Department of Treasury was a DHS vendor. The interagency agreement requires the Department of Treasury to develop the HHC claim form (MI-1040CR-7), process HHC claims, determine claimant eligibility, and issue HHC to eligible claimants in accordance with Section 206.527a of the *Michigan Compiled Laws*. DHS reimbursed the Department of Treasury \$140.6 million for HHC transactions during the two-year period ended September 30, 2006. Our review disclosed:

- (a) The Department of Treasury did not correctly calculate the HHC for 3 (11%) of 27 HHC claims reviewed. In two instances, the Department of Treasury did not have complete information to correctly calculate the claimants' credit. In the other instance, the Department of Treasury did not correctly prorate a deceased claimant's credit.
- (b) DHS had not implemented a process to periodically reconcile HHC claim detail information provided by the Department of Treasury in electronic format to the Department of Treasury's reimbursement billings and summary reports provided in paper format.

DHS received reimbursement billings from the Department of Treasury with summary reports of claims processed and mailed by the Department of Treasury. DHS reconciled the reimbursement billing amounts to the summary reports prior to authorizing payment to the Department of Treasury. The Department of Treasury also provided DHS with an electronic file of the detailed claims processed and mailed by the Department of Treasury. DHS did not reconcile the electronic file to the summary reports provided with the reimbursement billings.

We reviewed 8 of the 303 HHC processing runs included in the reimbursement billings selected in our review. We noted that the detailed claim information in the electronic file did not support the Department of Treasury reimbursement billings for 5 (63%) of the 8 HHC processing runs. For these 8 HHC processing runs, the detailed claim information in the electronic file totaled \$1,907,328 and the Department of Treasury reimbursement billings totaled

\$2,114,457, resulting in the reimbursement billings exceeding the detailed claim information in the electronic file by \$207,129. DHS was unable to provide documentation to support why the reimbursement billings were greater than the detailed claim information in the electronic file.

DHS local office staff use the detailed claim information in the electronic file as a factor in calculating the amount of a client's energy related emergency assistance payment. A periodic reconciliation of the detailed claim information in the electronic file to the reimbursement billings would help ensure that DHS local office staff have complete and accurate HHC detailed claim information.

By establishing effective monitoring of the Department of Treasury's processing of HHC payments, DHS could ensure that the Department of Treasury obtains the necessary information to verify claimants' HHC claims and pays claimants the correct amount.

- (3) DHS needs to improve its internal control over SER energy expenditures to help ensure the propriety of payments to energy providers.

Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that DHS did not use LIHEAP funds in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations. DHS contracted with three energy providers to perform an electronic match of eligible DHS clients with an energy related emergency and issue a payment to resolve the emergency. DHS made \$20.3 million in energy related emergency payments to the three energy providers during the two-year period ended September 30, 2006.

DHS did not maintain detail to support the amount of the energy related emergency payments made on behalf of eligible clients for fiscal year 2005-06. During our audit fieldwork, DHS obtained the detail from the energy providers to support the fiscal year 2005-06 SER energy expenditures selected in our review.

By establishing effective internal control over payment detail, DHS could ensure that SER energy expenditures are documented and meet the requirements of federal regulation 45 *CFR* 96.30.

- (4) DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools in compliance with federal requirements. We identified negative questioned costs of \$968 (see Finding 18 and related recommendation).

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over LIHEAP allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Cash Management

DHS did not draw the federal funds for LIHEAP in accordance with the federal CMIA agreement and did not submit complete and accurate information to the Michigan Department of Treasury in its annual federal CMIA report (see Finding 21, items a.(1) and b.(1), and related recommendation).

d. Eligibility

DHS needs to improve its internal control over eligibility documentation for SER energy expenditures. Our audit tests disclosed:

- (1) As discussed in the Activities Allowed or Unallowed section (item a.(1)) of this finding, DHS did not maintain applications to document that the client made accurate disclosures in 5 (17%) of 30 SER energy expenditures reviewed. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income and emergency need disclosures complied with federal eligibility requirements. The clients were categorically eligible. As a result, we did not report questioned costs for these expenditures in this section of the finding.
- (2) DHS local office staff did not certify client eligibility for 5 (20%) of 25 SER energy expenditures reviewed. DHS policy requires local office staff to certify by signature that a client met income and emergency need federal

eligibility requirements. The clients were categorically eligible. As a result, we did not report questioned costs for these expenditures in this section of the finding.

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that case documentation would be reviewed as part of local office administrative reviews.

e. Matching, Level of Effort, and Earmarking

DHS's internal control did not ensure that it earmarked expenditures. As a result, we questioned costs totaling \$9,244.

Federal regulation 45 *CFR* 96.88(a) states that any expenditure incurred for the administration of LIHEAP must be included in the statutory limitation regardless of whether DHS or a subrecipient incurred the expenditures. Federal law 42 *USC* 8624(b)(9)(A) states that the statutory limitation for planning and administrative costs is 10%.

DHS did not include administrative costs incurred by a subrecipient in its total planning and administrative costs in fiscal year 2004-05, which is necessary for DHS to ensure that it did not exceed its 10% statutory limitation for planning and administrative costs.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that it implemented accounting changes during fiscal year 2004-05 to address this recommendation.

f. Reporting

As discussed in the Matching, Level of Effort, and Earmarking section (item e.) of this finding, DHS's internal control did not ensure that it included administrative costs in fiscal year 2004-05 incurred by a LIHEAP subrecipient in its total planning and administrative costs. DHS improperly included the subrecipient's administrative costs in the nonadministrative expenditures of LIHEAP. As a result, we questioned costs totaling \$9,244 in item e. of this finding.

Federal regulation 45 *CFR* 96.30 states that DHS's fiscal control and accounting procedures must be sufficient to permit preparation of the financial status report (SF-269A).

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that it implemented accounting changes during fiscal year 2004-05 to address this recommendation.

g. Subrecipient Monitoring

DHS did not always issue management decisions on LIHEAP subrecipient Single Audit findings within six months of DHS's receipt of the reports (see Finding 20 and related recommendation).

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED AND MATCHING, LEVEL OF EFFORT, AND EARMARKING.

FOR THE THIRD CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND REPORTING.

FINDING 4310710

10. Community Services Block Grant (CSBG), *CFDA* 93.569

U.S. Department of Health and Human Services	<i>CFDA</i> 93.569: Community Services Block Grant
Award Number: G 04 B1 MI COSR G 05 B1 MI COSR G 06 B1 MI COSR	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$66,344

DHS's internal control over the CSBG Program did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in CSBG Program awards.

Federal expenditures for the CSBG Program totaled \$46.9 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$66,344 and known and likely questioned costs totaling \$469,309.

Our exceptions, by compliance area, are as follows:

a. Procurement and Suspension and Debarment

DHS's internal control did not ensure that 2 contracts for the CSBG Program were signed by authorized representatives of all parties before services began. We identified questioned costs totaling \$60,624 (see Finding 17, item b., and related recommendation).

b. Subrecipient Monitoring

DHS's internal control did not ensure that expenditures incurred by subrecipients were in accordance with federal laws and regulations. As a result, we questioned costs totaling \$5,720. Our review disclosed:

- (1) DHS did not ensure that expenditures incurred by CSBG subrecipients were for eligible individuals. We questioned costs totaling \$3,126.

DHS entered into a CSBG discretionary contract with a subrecipient for tax preparation services in which client participation was extended to individuals or households that were eligible for any service provided by the subrecipient. The subrecipient primarily served low-income individuals and households; however, not all subrecipient clients may have met CSBG eligibility criteria.

Federal law 42 USC 9902(2) requires that the official poverty line as defined by OMB be used as a criterion of eligibility in the CSBG Program.

- (2) DHS did not ensure that nonprofit subrecipients used funds for allowable costs. We questioned costs totaling \$2,594.

DHS entered into a CSBG discretionary contract for housing assistance in which CSBG funds were to be used as match for another federally funded program.

The "Basic Considerations" of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, state that, to be allowable under an award, costs must not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.

- (3) DHS did not always issue management decisions on CSBG Program subrecipient Single Audit findings within six months of DHS's receipt of the reports (see Finding 20 and related recommendation).

RECOMMENDATION

We recommend that DHS improve its internal control over the CSBG Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 4310711

11. Child Care and Development Fund (CCDF) Cluster, CFDA 93.575 and 93.596

U.S. Department of Health and Human Services	CCDF Cluster: CFDA 93.575: Child Care and Development Block Grant; CFDA 93.596: Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 05 01 MI CCDF G 06 01 MI CCDF G 05 01 MI CCDF (Mandatory) G 05 01 MI CCDF (Matching) G 06 01 MI CCDF (Mandatory) G 06 01 MI CCDF (Matching)	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2007 10/01/2005 - 09/30/2008 10/01/2004 - 09/30/2005 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
	Questioned Costs: \$168,237

DHS's internal control over the CCDF Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CCDF Cluster.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in CCDF Cluster awards.

Federal expenditures for the CCDF Cluster totaled \$562.8 million for the two fiscal years ended September 30, 2006. We identified known questioned costs of \$168,237 and known and likely questioned costs totaling \$256,714,234.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that CCDF Cluster expenditures incurred were for activities allowed according to applicable federal laws and regulations. Our review disclosed:

- (1) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain documentation to support client or provider eligibility for day-care benefits in 20 (47%) of 43 expenditures reviewed. We questioned costs of \$3,176 in item b.(1) of this finding.
- (2) As discussed in the Eligibility section (item c.(2)) of this finding, DHS's internal control did not prevent child day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$127,153 in item c.(2) of this finding.

Federal law 42 USC 9858c(c)(2)(A) states that CCDF Cluster funds may be used for child care services on behalf of an eligible child who is enrolled with an eligible provider.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that child day-care payments met the allowable cost principles of federal regulation 2 *CFR* 225. As a result, we questioned costs totaling \$41,084. Our audit tests disclosed:

- (1) DHS did not maintain documentation to support the amount of child day-care payments made, client eligibility, or provider eligibility. In 30 (70%) of 43 payments reviewed, DHS child day-care payment calculations and supporting documentation did not agree or DHS did not have key eligibility documentation in the client or provider case files. As a result, we questioned costs of \$3,340.

We noted payment calculation differences resulting from incomplete documentation needed to properly calculate benefits, miscalculated department pay percentages, and incorrectly applied hourly rates. We also noted incomplete documentation related to eligibility factors, such as household income level, child's age, and client's eligibility reason verifications.

Appendix A of federal regulation 2 *CFR* 225 requires that DHS adequately support costs charged to federal awards.

- (2) As discussed in the Eligibility section (item c.(2)) of this finding, DHS's internal control did not prevent child day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$127,153 in item c.(2) of this finding.

Appendix A of federal regulation 2 *CFR* 225 provides that for an expenditure to be allowable the expenditure must be necessary and reasonable for the proper and efficient performance and administration of the federal award.

- (3) DHS did not ensure that payroll costs charged to the CCDF Cluster were properly documented. We questioned costs of \$38,834 (see Finding 19, item b., and related recommendation).
- (4) DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools. We identified negative questioned costs of \$1,090 (see Finding 18 and related recommendation).

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Eligibility

DHS's internal control did not ensure that day-care benefits were issued to, or on behalf of, eligible clients and providers. As a result, we questioned costs totaling \$127,153. Our review disclosed:

- (1) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain documentation to support client or provider eligibility for day-care benefits in 20 (47%) of 43 expenditures reviewed. We noted incomplete supporting documentation related to: child's citizenship, client's household income level, client's eligibility reason verifications, client's age, and provider's age. We questioned costs of \$3,176 in item b.(1) of this finding.

Federal regulation 45 *CFR* 98.16(g)(5) requires that DHS identify additional eligibility requirements in its CCDF State Plan. Sections 3.3 and 6.6 of DHS's CCDF State Plan provides specific requirements for client and provider eligibility, respectively.

(2) DHS's internal control did not prevent child day-care payments from being issued to, or on behalf of, individuals who were incarcerated or deceased. We questioned costs of \$127,153:

- (a) DHS authorized and issued child day-care payments to, or on behalf of, 31 deceased providers, 3 deceased children, and 4 deceased parents/substitute parents totaling \$101,231.
- (b) DHS authorized and issued child day-care payments to, or on behalf of, 10 incarcerated providers and 5 incarcerated parents/substitute parents totaling \$25,922.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to eligibility.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CCDF CLUSTER TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

FINDING 4310712

12. Child Welfare Services: State Grants (CWSS), CFDA 93.645

U.S. Department of Health of Human Services	CFDA 93.645: Child Welfare Services: State Grants
Award Number: G 0401 MI 1400 G 0501 MI 1400 G 0601 MI 1400	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$958

DHS's internal control over the CWSS Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching,

level of effort, and earmarking; and procurement and suspension and debarment. Further, DHS could not provide sufficient documentation supporting its compliance with matching, level of effort, and earmarking requirements nor were we able to satisfy ourselves that DHS complied with those requirements by other auditing procedures. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the CWSS Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in CWSS Program awards.

Federal expenditures for the CWSS Program totaled approximately \$19.4 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$958 and known and likely questioned costs totaling \$226,471.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS's internal control did not ensure that CWSS Program expenditures met the allowable cost principles of Appendix A of federal regulation 2 *CFR* 225. As a result, we questioned costs totaling \$212. Our review disclosed:

- (1) DHS paid a premium rate to a contractor for the placement of a child in an adoptive family when the court order placing the child was not signed within six months of the date of permanent wardship. According to the contract, a premium rate should have only been paid when the order placing the child was signed by the court within six months of the date of permanent wardship. As a result, we questioned costs of \$148.
- (2) DHS did not properly authorize 5 (5%) of 91 CWSS Program expenditures reviewed. DHS policy requires supervisory approval of determination of care payments. As a result, we questioned costs of \$64.
- (3) For 2 (2%) of 91 expenditures reviewed, DHS did not maintain documentation supporting the payment. DHS did not maintain support for the determination of care supplemental payments issued. As a result, we questioned costs of \$19, which are included in the questioned costs reported in item a.(2).

Appendix A of federal regulation 2 *CFR* 225 requires that costs charged to a federal award be adequately documented and be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

b. Matching, Level of Effort, and Earmarking

DHS's internal control did not ensure that it maintained records to verify the certification of the State's share of CWSS Program expenditures in fiscal year 1978-79. As a result, we could not determine if DHS complied with CWSS Program level-of-effort requirements.

Federal regulation 45 *CFR* 1357.30(g) states that a state may not receive federal CWSS funds in excess of the federal CWSS expenditures in fiscal year 1978-79 unless the state's CWSS expenditures are equal to or greater than the state's CWSS expenditures in fiscal year 1978-79. A state must certify the amount of state CWSS expenditures in fiscal year 1978-79 and maintain records to verify the certification.

This compliance requirement was added as a major compliance requirement to the 2004 OMB *Circular A-133 Compliance Supplement*. Consequently, this is the first audit that we have requested DHS's supporting documentation of its certification. The 1979 baseline requirement was eliminated by the Child and Family Services Improvement Act of 2006 (federal law 42 *USC* 623(c)) and is not in effect for federal fiscal year 2007. A new baseline will go into effect for federal fiscal year 2008.

c. Procurement and Suspension and Debarment

DHS's internal control did not ensure that DHS entered into a written contract with a vendor of the CWSS Program. We identified questioned costs totaling \$746 (see Finding 17, item a., and related recommendation).

RECOMMENDATION

We recommend that DHS improve its internal control over the CWSS Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking.

FINDING 4310713

13. Foster Care: Title IV-E, CFDA 93.658

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 05 01 MI 1401 06 01 MI 1401	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$2,171,957

DHS's internal control over the Foster Care: Title IV-E Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Foster Care: Title IV-E Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Foster Care: Title IV-E Program awards.

Federal expenditures for the Foster Care: Title IV-E Program totaled \$185.6 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$2,171,957 and known and likely questioned costs totaling \$22,479,775.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed. As a result, we questioned costs totaling \$751,031, of which \$5,434 is questioned in the Eligibility section (item c.) of this finding and \$8,609 is questioned in the Subrecipient Monitoring section (item e.) of this finding. Our audit tests disclosed:

- (1) DHS needs to improve its internal control over its determination of child care institution (CCI) treatment and maintenance payments to help

ensure that the correct amount is charged to the Foster Care: Title IV-E Program. DHS divides CCI payments into maintenance and treatment portions based on expenditure reports submitted annually by the CCIs, but it does not have policies or procedures in place requiring that rates be updated when new expenditure reports are submitted. As a result, an incorrect rate was used and a portion of treatment expenditures were charged to the Foster Care: Title IV-E Program. We questioned costs totaling \$736,988.

Federal law 42 *USC* 675(4)(A) defines foster care maintenance payments as payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation. Costs claimed as foster care maintenance payments that include medical, educational, or other expenses are not allowable under the Foster Care: Title IV-E Program.

- (2) As discussed in the Eligibility section (item c.) of this finding, DHS issued Foster Care: Title IV-E Program payments on behalf of ineligible children. Federal law 42 *USC* 672(b) requires DHS to issue foster care maintenance payments on behalf of only eligible children. We questioned the costs of these expenditures in the Eligibility section (item c.) and Subrecipient Monitoring section (item e.) of this finding.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care Program activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that Foster Care: Title IV-E Program expenditures met allowable cost principles of Appendix A of federal regulation 2 *CFR* 225. As a result, we questioned costs totaling \$1,370,187, of which \$736,988 is questioned in the Activities Allowed or Unallowed section (item a.) of this finding, \$5,434 is questioned in the Eligibility section (item c.) of this

finding, and \$8,702 is questioned in the Subrecipient Monitoring section (item e.) of this finding. Our audit tests disclosed:

- (1) As discussed in the Activities Allowed or Unallowed section (item a.) of this finding, DHS needs to improve its internal control over payments to CCIs to ensure that expenditures are correctly charged to the Foster Care: Title IV-E Program. We questioned costs totaling \$736,988 in item a.(1) of this finding.
- (2) For 1 (2%) of 58 expenditures reviewed, DHS documentation did not support the payment amount. DHS had not established a process to reconcile claim detail information to the subrecipient's reimbursement billings to ensure that DHS paid the correct amount. Appendix A of federal regulation 2 *CFR* 225 requires that DHS adequately support costs charged to federal awards. We questioned costs totaling \$94 in item e.(1) of this finding.
- (3) DHS inappropriately charged Michigan Adoption Resource Exchange (MARE) expenditures to the Foster Care: Title IV-E Program administrative costs. These indirect expenditures are incurred to provide adoption information and referral services that benefit other federal programs in addition to the Foster Care: Title IV-E Program. DHS's approved Public Assistance Cost Allocation Plan (PACAP) includes a cost pool for these types of expenditures. We questioned costs totaling \$616,734.

Appendix D of federal regulation 2 *CFR* 225 requires that DHS allocate indirect costs according to DHS's PACAP. In addition, federal regulation 45 *CFR* 95.517 states that a state must claim federal reimbursement for costs associated with a program only in accordance with its approved cost allocation plan.

- (4) As discussed in the Eligibility section (item c.) of this finding, DHS issued Foster Care: Title IV-E Program payments on behalf of ineligible children. Federal law 42 *USC* 672(b) requires DHS to issue foster care maintenance payments on behalf of only eligible children. We questioned the costs of these expenditures in the Eligibility section (item c.) and Subrecipient Monitoring section (item e.) of this finding.

- (5) DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools. We questioned costs of \$2,328 (see Finding 18 and related recommendation).

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care: Title IV-E Program allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Eligibility

DHS's internal control did not ensure that it issued Foster Care: Title IV-E Program payments only on behalf of eligible children. As a result, we noted exceptions in 8 (16%) of 50 maintenance payments reviewed, 1 (2%) of 46 provider licenses reviewed, and 2 (67%) of 3 contractual payments reviewed. We questioned costs totaling \$630,777, of which \$616,734 is questioned in the Allowable Costs/Cost Principles section (item b.(3)) of this finding and \$8,609 is questioned in the Subrecipient Monitoring section (item e.) of this finding. Our audit tests disclosed:

- (1) DHS improperly claimed Foster Care: Title IV-E Program funding for maintenance payments issued on behalf of children who were ineligible at the time the service was rendered because DHS could not provide judicial determinations and court orders did not contain language required by federal regulations:
 - (a) For 3 (10%) of 31 expenditures reviewed, DHS issued maintenance payments on behalf of children who were ineligible because DHS did not have documentation that a judicial determination of the reasonableness of the efforts to finalize a permanency plan had been made for the time period of the payment.

Federal regulation 45 *CFR* 1356.21(b)(2) requires that a judicial determination of the reasonableness of the efforts to finalize the permanency plan must be made within 12 months of the child entering foster care and every 12 months thereafter. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial

determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

- (b) For 3 (7%) of 46 expenditures reviewed, DHS issued maintenance payments on behalf of children who were ineligible because DHS did not have documentation that a judicial determination of the reasonableness of the efforts to prevent the child's removal from the home had been made within 60 days of the child's removal from the home.

Federal regulation 45 *CFR* 1356.21(b)(1)(i) requires that the judicial determination of whether reasonable efforts were made, or were not required to prevent removal, must be made no later than 60 days from the date the child is removed from the home. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

- (c) For 1 (2%) of 50 expenditures reviewed, DHS issued maintenance payments on behalf of a child who was ineligible because the court order did not indicate that removal from the home was in the child's best interest.

Federal regulation 45 *CFR* 1356.21(c) requires that the first court order removing the child from the home contain a judicial determination that removal from the home is in the best interest of the child or that continuation in the home is contrary to the child's welfare. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

- (d) For 1 (100%) of 1 expenditures reviewed, DHS issued day-care related maintenance payments on behalf of a child who was ineligible because DHS documentation did not include verification that the foster parent was employed, as indicated by the day-care need reason code shown in the Unified Child Daycare System for the foster care provider.

Federal regulation 45 *CFR* 1355.20 (a)(1) allows foster care maintenance payments to be made for daily supervision in licensed child care when work responsibilities preclude foster parents from being at home when the child for whom they have care and responsibility in foster care is not in school.

- (2) For 1 (2%) of 46 Foster Care: Title IV-E Program provider licenses reviewed, DHS improperly claimed Foster Care: Title IV-E Program funding for a maintenance payment on behalf of a child who was ineligible because the child was not placed with a provider who was licensed during the billing period of the maintenance payment.

Federal law 42 *USC* 672(c) requires that DHS only make maintenance payments on behalf of children placed in licensed foster family homes or CCIs.

- (3) As discussed in the Allowable Costs/Cost Principles section (item b.(3)) of this finding, DHS inappropriately charged MARE expenditures to the Foster Care: Title IV-E Program administrative costs. These indirect expenditures are incurred to provide adoption information and referral services that benefit other federal programs in addition to the Foster Care: Title IV-E Program.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care: Title IV-E Program eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to eligibility.

d. Procurement and Suspension and Debarment

DHS's internal control did not ensure that DHS entered into written contracts with four vendors that provided general and specialized foster care services for the Foster Care: Title IV-E Program. We questioned costs of \$26,491 (see Finding 17, item a., and related recommendation).

e. Subrecipient Monitoring

Our review disclosed:

- (1) DHS's internal control did not ensure that it monitored Wayne County's eligibility determinations for juvenile justice children. As a result, we questioned costs totaling \$783,982.

DHS is primarily responsible for the expenditure of Foster Care: Title IV-E Program funds. DHS has a contract with Wayne County to provide funding to Wayne County for eligible juvenile justice children. DHS considers Wayne County to be a subrecipient.

In order to be reimbursed, Wayne County submits a billing which lists the Wayne County juvenile justice children for whom they are requesting reimbursement. DHS does not verify the eligibility of the children for whom they are paying. We were informed by DHS that the documentation would be retained by Wayne County because it was Wayne County that was responsible for continued eligibility determination. However, in our discussions with Wayne County, we were informed that it was DHS who was responsible for the continued eligibility determinations. The contract between Wayne County and DHS was silent on who was responsible for the continued determination.

As the grantor of the federal funds, OMB Circular A-133 requires DHS to monitor the program to ensure that the funds are expended for only eligible children. Because of the lack of understanding between the two parties and the lack of documentation for the items we reviewed, we have questioned all of the amounts provided to Wayne County for the two years ended September 30, 2006.

- (2) DHS's internal control did not ensure that it always issued management decisions on Foster Care: Title IV-E Program subrecipient Single Audit findings within six months of DHS's receipt of the reports (see Finding 20 and related recommendation).

The U.S. Department of Health and Human Services completed an initial eligibility review in April 2004 to determine if DHS was making payments on behalf of eligible children placed in eligible homes and institutions in accordance with the Social

Security Act and regulations. As a result of this review, DHS was required to repay \$283,224, develop and implement a process improvement plan, and undergo a second review. If DHS did not improve, it faced a possible penalty of \$22 million.

The U.S. Department of Health and Human Services conducted the second eligibility review of DHS's case files for foster care maintenance payments issued between April 1, 2006 and September 30, 2006. Prior to the review, DHS conducted an extensive case file review to identify cases that did not meet Foster Care: Title IV-E Program eligibility requirements. For cases that DHS determined did not meet the Foster Care: Title IV-E Program eligibility requirements, DHS changed the funding source on the cases to a funding source other than Foster Care: Title IV-E Program before April 1, 2006. As a result, those cases were not in the population reviewed during the federal review. The federal review identified 8 cases with ineligible payments and disallowed \$41,067 in maintenance payments and \$47,430 in administrative costs. The federal review concluded that DHS was in substantial compliance with federal eligibility requirements for the period April 1, 2006 through September 30, 2006.

We issued a qualified opinion on the Foster Care: Title IV-E Program. Our conclusion is different from the federal review because our sample included cases from the entire audit period. In addition, we audited for compliance requirements other than eligibility. Subsequent to our audit fieldwork, DHS informed us that when it implemented its process improvement plan, it established new controls that would help ensure its future compliance with the program requirements. We will audit these controls in our next Single Audit of DHS.

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOSTER CARE: TITLE IV-E PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

We also recommend that DHS improve its internal control to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 4310714

14. Adoption Assistance, CFDA 93.659

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 05 01 MI 1407 G 06 01 MI 1407	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$4,743

DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adoption Assistance Program awards.

Federal expenditures for the Adoption Assistance Program totaled \$216.8 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$4,743 and known and likely questioned costs totaling \$4,450,612.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed. As a result, we questioned costs of \$4,466. Our audit tests disclosed:

- (1) DHS incorrectly charged a TANF Program medical subsidy payment to the Adoption Assistance Program. DHS incorrectly charged this payment to the Adoption Assistance Program because Adoption Assistance Program staff selected the incorrect program code when entering the transaction into the Adoption Subsidy Access Database. This error resulted in questioned costs of \$3,955.

We reported a similar condition in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that Adoption Subsidy Unit staff had

reviewed policy and proper account coding and the unit supervisor had trained staff on the interim manual document review process to improve accuracy and reconcile Michigan Administrative Information Network* (MAIN) reports. Our testing results indicated that DHS made improvements in properly coding adoption subsidy payments since the prior audit.

- (2) DHS incorrectly charged 1 (14%) of 7 reissued payments reviewed to the Adoption Assistance Program. Adoption Assistance Program staff used the incorrect program code when reissuing a payment. DHS should have charged this expenditure to State funds. This error resulted in questioned costs of \$511.

We reported a similar condition in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that these types of payments must be processed manually, which could result in coding errors. Our testing results indicated that DHS made improvements in reissuing payments since the prior audit.

Federal law 42 USC 673(a)(1)(B) states that DHS may make adoption subsidy payments to adoptive parents on behalf of eligible children and does not allow DHS to expend Adoption Assistance Program awards for medical subsidy payments, TANF, or State-funded purposes.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools. We questioned costs of \$277 (see Finding 18 and related recommendation).

c. Eligibility

DHS's internal control did not ensure that it issued adoption subsidy payments only on behalf of eligible children. As a result, we identified likely questioned costs totaling \$4,428,128.

In determining if an adoption subsidy qualifies for payment under the Adoption Assistance Program, DHS relies on the Foster Care: Title IV-E Program

* See glossary at end of report for definition.

eligibility determination that DHS documents within the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ). Federal law 42 USC 673(a)(2)(A) indicates that a child must meet one of three financial based criteria to be eligible for the Adoption Assistance Program. The criteria used by 97% of the Adoption Assistance Program's participants is that the child was or would have been eligible for the former Aid to Families with Dependent Children (AFDC) Program. This criteria includes a requirement that the child's removal from the home must be as a result of a voluntary placement agreement or a judicial determination that removal from the home was in the child's best interest. DHS Adoption Assistance Program staff use the former AFDC eligibility and judicial determination information from the SWSS-FAJ system in determining eligibility for the Adoption Assistance Program. In our review of the Foster Care: Title IV-E Program, we noted that 2% of the foster care maintenance payments sampled did not meet the Foster Care: Title IV-E Program eligibility requirements related to judicial determination that removal from the home was in the child's best interest (see Finding 13.c.(1)(c)). As a result, we identified the likely questioned cost impact on adoption subsidy payments to be \$4,428,128.

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that the Foster Care: Title IV-E Program implemented several measures to improve the accuracy of eligibility determination and that adoption subsidy staff implemented and re-emphasized several controls over their verification of eligibility determination. Our testing results indicated that the error rate related to eligibility declined since the prior audit.

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED.

FINDING 4310715

15. Social Services Block Grant (SSBG), CFDA 93.667

U.S. Department of Health and Human Services	CFDA 93.667: Social Services Block Grant
Award Number: G 04 01 MI SOSR G 05 01 MI SOSR G 06 01 MI SOSR G 06 01 MI SOS2	Award Period: 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
	Questioned Costs: \$6,744,055

DHS's internal control over the SSBG Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance related to allowable costs/cost principles compliance requirements. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the SSBG Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in SSBG Program awards.

Federal expenditures for the SSBG Program totaled \$230.4 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$6,744,055 and known and likely questioned costs totaling \$12,669,249.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that SSBG Program expenditures incurred were for allowable activities. As a result, we questioned costs totaling \$2,402,431. Our review disclosed:

(1) DHS did not ensure that expenditures were incurred in accordance with the SSBG State Plan:

(a) DHS claimed expenditures for information, referral, and advocacy service and homeless youth service expenditures but had not

included these activities in the SSBG State Plan. As a result, we questioned costs totaling \$2,402,431.

- (b) As discussed in the Eligibility section (item d.(1)) of this finding, DHS did not ensure that fiscal year 2004-05 SSBG child day-care expenditures were incurred for eligible clients as reported in the SSBG State Plan. We questioned costs totaling \$4,325,993 in item d.(1) of this finding.

Federal law 42 *USC* 1397c requires the State to report on the intended use of payments, including information on the types of activities to be supported and the categories or characteristics of individuals to be served prior to expenditure by the State. The State submits the SSBG State Plan to report to the U.S. Department of Health and Human Services its intended use of SSBG funds.

- (2) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(c)) of this finding, DHS did not maintain documentation to support client eligibility for child day-care payments in 18 (35%) of 51 SSBG expenditures reviewed. We questioned costs of \$2,516 in item b.(1)(c) of this finding.
- (3) As discussed in the Eligibility section (item d.(2)) of this finding, DHS did not prevent SSBG child day-care payments from being issued to one day-care aide provider who was convicted of a specified crime. As a result, we questioned costs of \$198 in item d.(2) of this finding.
- (4) As discussed in the Eligibility section (item d.(5)) of this finding, DHS did not prevent SSBG child day-care payments from being issued to, or on behalf of, individuals who were deceased. We questioned costs totaling \$1,403 in item d.(5) of this finding, of which \$600 is questioned in item d.(1) of this finding.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure the propriety of SSBG Program expenditures. As a result, we questioned costs totaling \$14,095. Our audit tests disclosed:

- (1) DHS did not ensure that SSBG Program expenditures met the requirements of federal regulation 45 *CFR* 96.30. We questioned costs of \$5,604.

Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of SSBG funds to document that DHS did not use SSBG funds in violation of the restrictions and prohibitions of SSBG laws and federal regulations. Federal regulation 45 *CFR* 96.30 also requires DHS to obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Our review disclosed:

- (a) DHS did not maintain adequate documentation to support the payment amount in 2 (5%) of 44 SSBG evaluation/diagnostic examination and CCI treatment expenditures. As a result, we questioned costs totaling \$1,763.
- (b) DHS did not properly approve 7 (25%) of 28 SSBG medical service expenditures. We questioned costs totaling \$1,100.
- (c) DHS did not maintain documentation to support client eligibility for 18 (35%) of 51 expenditures reviewed. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs totaling \$2,516.
- (d) DHS did not maintain documentation to support the child day-care payment amounts for 2 (4%) of 51 expenditures reviewed. As a result, we questioned costs of \$155.
- (e) DHS did not maintain supporting documentation that 2 (50%) of 4 representative payee service payments reviewed met SSBG eligibility criteria as outlined in the SSBG State Plan. As a result, we questioned costs totaling \$70.

- (2) As discussed in the Eligibility section (item d.(2)) of this finding, DHS did not prevent SSBG child day-care expenditures from being issued to one day-care aide provider who was convicted of a specified crime. As a result, we questioned costs of \$198 in item d.(2) of this finding.
- (3) As discussed in the Activities Allowed or Unallowed section (item a.(1)(a)) of this finding, DHS did not ensure that expenditures were incurred for allowable activities as reported in the SSBG State Plan for information, referral, and advocacy service and homeless youth service expenditures. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs of \$2,402,431 in item a.(1)(a) of this finding.
- (4) As discussed in the Eligibility section (item d.(5)) of this finding, DHS did not prevent SSBG child day-care payments from being issued to, or on behalf of, individuals who were deceased. We questioned costs totaling \$1,403 in item d.(5) of this finding, of which \$600 is questioned in item d.(1) of this finding.
- (5) DHS's internal control did not ensure that the correct payroll distribution rates were applied to cost pools. We questioned costs of \$8,491 (see Finding 18 and related recommendation).

c. Cash Management

DHS's internal control did not ensure that it drew the federal funds for the SSBG Program in accordance with the federal CMIA agreement and that it submitted complete and accurate information to the Michigan Department of Treasury in its annual federal CMIA report (see Finding 21, items a.(2) and b.(1), and related recommendation).

d. Eligibility

DHS's internal control did not ensure that assistance was provided only to or on behalf of eligible clients and providers. We questioned costs totaling \$4,326,994. Our review disclosed:

- (1) DHS did not ensure that fiscal year 2004-05 SSBG child day-care expenditures were incurred for eligible clients as reported in the SSBG State Plan. We questioned costs totaling \$4,325,993.

The fiscal year 2004-05 SSBG State Plan limited SSBG child day-care eligibility to clients with the family preservation need reason only. However, in fiscal year 2004-05, DHS incurred SSBG child day-care expenditures totaling \$4,325,993 for non-family preservation need reasons.

Federal law 42 *USC* 1397c requires the State to report on the intended use of payments, including information on the types of activities to be supported and the categories or characteristics of individuals to be served prior to expenditure by the State.

- (2) Our review of 41 day-care providers disclosed that DHS did not prevent SSBG child day-care payments from being issued to one day-care aide provider who was convicted of a specified crime. As a result, we questioned costs totaling \$198.

Michigan Administrative Code R 400.5003 requires day-care aides to be certified by DHS. DHS policy requires that enrollment of a day-care aide must be denied or terminated if he or she has been convicted of a specified crime. DHS's practice at the time of the provider enrollment and the payment date of our sample item was to include the specified crime in its list of certain crimes.

- (3) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(c)) of this finding, DHS did not maintain documentation to support client eligibility for child day-care payments in 18 (35%) of 51 expenditures reviewed. As a result, we questioned costs of \$2,516 in item b.(1)(c) of this finding.
- (4) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(e)) of this finding, DHS did not maintain supporting documentation that 2 (50%) of 4 representative payee service payments reviewed met SSBG eligibility criteria as outlined in the SSBG State Plan. As a result, we questioned costs of \$70 in item b.(1)(e) of this finding.
- (5) DHS did not prevent SSBG child day-care payments from being issued to, or on behalf of, individuals who were deceased. DHS authorized and issued day care payments on behalf of 1 deceased parent/substitute

parent and 1 deceased provider. We questioned costs totaling \$1,403, of which \$600 is questioned in item d.(1) of this finding.

e. Procurement and Suspension and Debarment

DHS's internal control did not ensure that one contract amendment for the SSBG Program was signed by authorized representatives of all parties before services began. We identified questioned costs totaling \$535 (see Finding 17, item b., and related recommendation).

RECOMMENDATION

We recommend that DHS improve its internal control over the SSBG Program to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

FINDING 4310716

16. Chafee Foster Care Independence Program (CFCIP), CFDA 93.674

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 04 01 MI 1420 G 05 01 MI 1420 G 06 01 MI 1420	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$1,637,744

DHS's internal control over CFCIP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; procurement and suspension and debarment; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; procurement and suspension and debarment; and subrecipient monitoring. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CFCIP Program. Our review also disclosed that DHS did not have internal control in place related to matching, level of effort, and earmarking.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CFCIP awards.

Federal expenditures for the CFCIP Program totaled \$10.8 million for the two-year period ended September 30, 2006. We identified known questioned costs of \$1,637,744 and known and likely questioned costs totaling \$7,406,152.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that CFCIP expenditures incurred were for activities allowed. As a result, we questioned costs totaling \$1,504,791, of which \$7,857 is questioned in the Allowable Costs/Cost Principles section (item b.) and \$1,489,826 is questioned in the Eligibility section (item c.) of this finding. Our review disclosed:

- (1) DHS issued payments for services that were not based on the youth's approved service plan in 5 (28%) of 18 expenditures reviewed. We questioned costs of \$7,107.

If DHS provides services and assistance not outlined in the youth's service plan, DHS cannot ensure that the payments are allowable and serve the youth's goal to accomplish self-sufficiency. The youth's service plan outlines the certain services and assistance the youth needs to obtain employment and make the transition to self-sufficiency.

Federal law 42 *USC* 677(d)(1) states that CFCIP funding may be used in any manner that is reasonably calculated to accomplish the purposes of the program. Federal law 42 *USC* 677(a) describes these activities as assistance in obtaining a high school diploma, career exploration, job placement and retention, vocational training, training in daily living skills, money management, counseling, substance abuse prevention and preventive health activities.

- (2) As discussed in the Eligibility section (item c.(3)) of this finding, DHS inappropriately made payments for CFCIP services for youth adjudicated as juvenile justice wards. We questioned costs of \$6,121 in item c.(3) of this finding.

Federal law 42 *USC* 677(b)(2)(A) required DHS to develop a state plan to deliver programs to achieve the purposes of CFCIP. DHS's CFCIP State

Plan defines a youth's eligibility for CFCIP services as all youth between 14 and 21 who are or have been in a foster care placement after their 14th birthday, based on abuse or neglect through the State of Michigan. Youth adjudicated as juvenile justice wards are not eligible for CFCIP services.

- (3) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) and the Eligibility section (item c.(2)) of this finding, DHS did not maintain adequate documentation of birth certificates, service plans, and the contractor's roster of children served to support that the youth were of the proper age and eligible to receive assistance and to ensure that payments were for reasonable and necessary services. We questioned costs of \$8,732 in item b.(1) and \$15,801 in item c.(2) of this finding.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that CFCIP expenditures met the allowable cost principles of Appendix A of federal regulation 2 *CFR* 225. As a result, we questioned costs totaling \$1,519,455, of which \$7,107 is questioned in the Activities Allowed or Unallowed section (item a.) and \$1,468,384 is questioned in the Eligibility section (item c.) of this finding. Our review disclosed:

- (1) DHS did not maintain adequate documentation to support 11 (13%) of 87 CFCIP expenditures reviewed. We questioned costs of \$8,732. We found that DHS did not maintain:
 - (a) Birth certificates to support the youths' age and eligibility for CFCIP, as discussed in the Eligibility section (item c.(2)) of this finding.
 - (b) Service plans for youths for the period of the payment to support that the services provided were reasonable and necessary as outlined in federal law 42 *USC* 677(a).

- (c) Invoices or receipts to support the amount of the payment made.
 - (d) The contractor's roster of children served for the contract billing period.
 - (e) Documentation of the supervisor's payment authorization.
- (2) DHS did not ensure that payroll costs charged to CFCIP were properly documented. We questioned costs of \$35,232 (see Finding 19, item b., and related recommendation.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Eligibility

DHS's internal control did not ensure the eligibility of youth receiving CFCIP services. As a result, we questioned costs totaling \$1,496,319, of which \$6,493 is questioned in the Allowable Costs/Cost Principles section (item b.) of this finding. Our review disclosed:

- (1) DHS homeless youth contracts did not contain the appropriate eligibility criteria for the subrecipients to follow when determining a youth's eligibility to receive CFCIP services. Without appropriate eligibility criteria within the contracts, DHS cannot ensure that it is using its CFCIP funds in accordance with federal law. We questioned costs of \$1,467,904.

Each of the 14 homeless youth contracts we reviewed provided for housing to eligible youth. However, the eligibility language in the contract specified the age to be 16 through 20 years and did not include the criteria for the youth to be adjudicated as an abuse or neglect ward in foster care after age 14.

Federal law 42 *USC* 677(a)(5) allows DHS to provide housing to former foster care recipients between 18 and 21 years of age. Also, federal law 42 *USC* 677(b)(3)(C) requires a state to certify that none of the amounts

paid to the state from its grant award will be expended for housing for any youth who has not attained 18 years of age. In addition, DHS's CFCIP State Plan states that all youth adjudicated as abuse or neglect wards, who were in foster care after age 14 and are between 18 and 21 years of age, are eligible for housing.

- (2) DHS did not maintain adequate documentation of birth certificates to support the youths' eligibility to receive CFCIP funded services in 5 (6%) of 80 expenditures reviewed. We questioned costs of \$15,801.

Federal law 42 USC 677(a) states that CFCIP funding should be used to provide specified services to youth likely to remain in foster care until 18 years of age as well as former foster care youth between 18 and 21 years of age to help with their transition from foster care to self-sufficiency and adulthood. DHS's CFCIP State Plan further defines the age specific eligibility as all youth between 14 and 21 who are or have been in foster care after their 14th birthday.

- (3) DHS inappropriately made payments for CFCIP services for youth adjudicated as juvenile justice wards in 12 (15%) of 80 expenditures reviewed. We questioned costs of \$6,121.

Federal law 42 USC 677(a) requires CFCIP services to be provided to youth in foster care or formerly in foster care. DHS's CFCIP State Plan defines a youth's eligibility for CFCIP services as all youth between 14 and 21 who are or have been in a foster care placement after their 14th birthday, based on abuse or neglect through the State of Michigan. Youth adjudicated as juvenile justice wards are not eligible for CFCIP services.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to eligibility.

d. Matching, Level of Effort, and Earmarking

DHS did not have controls in place to ensure that the federal matching, level of effort, and earmarking requirement is met. DHS was not able to identify total

expenditures related to room and board for children who were between 18 and 21 years of age. If DHS does not monitor housing services provided to all CFCIP eligible youth, it cannot ensure that it complies with the room and board maximums.

Federal law 42 *USC* 677(3)(B) requires states to certify that not more than 30% of its CFCIP funds will be expended on room and board for youth ages 18 through 20. In addition, 42 *USC* 677(3)(C) stipulates that states may not use any CFCIP funds on room and board for youth that have not yet turned 18 years old.

DHS documents services provided to youth on the service youth profile report (DHS-4713). Program staff have instructed all outstate* local offices to submit the DHS-4713 to the central office after completion. Central office staff then enter the services from each DHS-4713 into a tracking database. The Youth in Transition (YIT) Program coordinator can then use this database to monitor the amount of CFCIP funds expended on room and board.

However, our review disclosed that the central office did not receive all outstate DHS-4713s during the audit period and, therefore, was unable to enter all relevant information into the database. In addition, neither the central office nor the Wayne County YIT Program coordinator monitored the amount of CFCIP funds expended for room and board in Wayne County.

Furthermore, our review of the information that had been entered into the database disclosed that the data was not reliable. For example, key fields, such as services delivered and service dates, were blank and the database, which DHS indicated covered fiscal years 1999-2000, 2001-02, and 2003-04 through 2005-06, contained service dates ranging from 1966 to 2013.

We summarized total expenditures in the accounts which would most likely include room and board expenditures. Based on these calculations, our estimate indicated that DHS did not exceed the 30% maximum for room and board. As a result, we did not report questioned costs.

* See glossary at end of report for definition.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP matching, level of effort, and earmarking. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to matching, level of effort, and earmarking.

e. Procurement and Suspension and Debarment

DHS's internal control did not ensure that 12 (63%) of 19 contracts reviewed were signed by authorized representatives of all parties before services began. As a result, we questioned costs totaling \$55,213 of which \$5,617 is questioned in the Eligibility section (item c.) and \$2,481 is reported in our finding regarding procurement and suspension and debarment (see Finding 17, item a. and related recommendation).

Federal regulation 45 *CFR* 92.36 requires that DHS follow State policies and procedures when procuring goods or services for the administration of a federal award. Department of Management and Budget (DMB) Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

f. Subrecipient Monitoring

Our review disclosed:

- (1) DHS's internal control did not ensure that it sufficiently monitored the activities of subrecipients to ensure that they used federal awards for authorized purposes.

Our review of 11 subrecipient contracts disclosed that DHS did not have consistent monitoring procedures among its CFCIP subrecipients. DHS was not able to rely on the Single Audits of the subrecipients to ensure that they used CFCIP funds in compliance with federal laws and regulations as each of these subrecipients did not have a Single Audit

performed during our audit period or the CFCIP was not audited as a major federal program as part of the Single Audit.

Our review also disclosed that DHS did not perform sufficient monitoring activities of an interagency agreement to ensure that CFCIP funds are expended on behalf of only eligible youth.

Public Law 104-156, Section 7502(f)(2), and OMB Circular A-133, Section 400(d), require DHS to monitor the activities of its subrecipients to ensure that they used federal awards in compliance with federal laws and regulations.

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that it had changed the account coding for the subrecipient contracts cited in the prior audit finding so that contracts were no longer charged to CFCIP.

- (2) DHS's internal control did not ensure that expenditures incurred by CFCIP subrecipients served eligible individuals. As a result, we questioned costs of \$47,250.

During the audit period, DHS entered into an interagency agreement with the Department of Labor and Economic Growth (DLEG) in which DHS provides 100% of the administrative funds for DLEG's Foster Youth Demonstration Project. However, DHS did not monitor whether all of the children served by the project met CFCIP eligibility requirements.

Our review of Foster Youth Demonstration Project participants disclosed that 34 youth were ineligible to receive CFCIP funding, yet they remained participants of the demonstration project.

Federal law 42 USC 677(a) states that CFCIP funding should be used to provide specified services to youth likely to remain in foster care until 18 years of age as well as former foster care youth between 18 and 21 years of age to help with their transition from foster care to self-sufficiency and adulthood. DHS's CFCIP State Plan further defines the age specific eligibility as all youth between 14 and 21 who are or have been in foster care after their 14th birthday.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER CFCIP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED; ALLOWABLE COSTS/COST PRINCIPLES; ELIGIBILITY; MATCHING, LEVEL OF EFFORT, AND EARMARKING; AND SUBRECIPIENT MONITORING.

FINDING 4310717

17. Procurement and Suspension and Debarment

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: 0404MIHMR G 05 04 MI 4004 G 06 04 MI 4004	Award Period: 10/01/2003 - 09/30/2008 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0
U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 04 AA MI 5110 G 05 AA MI 5100	Award Period: 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2006
	Questioned costs of \$221,149 were included in Finding 4310708.
U.S. Department of Health and Human Services	CFDA 93.569: Community Services Block Grant
Award Number: G 04 B1 MI COSR	Award Period: 10/01/2003 - 09/30/2005
	Questioned Costs of \$60,624 were included in Finding 4310710.
U.S. Department of Health and Human Services	CFDA 93.645: Child Welfare Services: State Grants
Award Number: G 05 01 MI 1400	Award Period: 10/01/2004 - 09/30/2006
	Questioned costs of \$746 were included in Finding 4310712.
U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 05 01 MI 1401 06 01 MI 1401	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned costs of \$26,491 were included in Finding 4310713.

U.S. Department of Health and Human Services	CFDA 93.667: Social Services Block Grant
Award Number: G 04 01 MI SOSR G 05 01 MI SOSR	Award Period: 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
	Questioned costs of \$535 were included in Finding 4310715.

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 04 01 MI 1420 G 05 01 MI 1420 G 06 01 MI 1420	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned costs of \$2,481 were included in Finding 4310716.

DHS, in coordination with DMB, needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations.

Internal control that does not ensure compliance with federal and State laws and regulations could result in sanctions, disallowances, and/or future reduction of federal awards. We questioned costs totaling \$312,026.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award. The *Michigan Compiled Laws* and DMB Administrative Guide establish policies and procedures for all executive branch departments for procuring goods and services. DMB provides acquisition services for some DHS procurements.

We reviewed 47 DHS federal program contracts and procurement expenditure items for compliance with procurement and suspension and debarment

requirements for the two-year period ended September 30, 2006. Our review of DHS's procurement, suspension, and debarment practices disclosed:

- a. DHS's internal control did not ensure that it entered into written contracts for 8 (17%) of 47 procurements that required a contractual relationship. As a result, we questioned costs totaling \$29,718. Our audit tests disclosed:
 - (1) DHS did not enter into written contracts with 4 vendors of the Foster Care: Title IV-E Program that provided general and specialized foster care services to children during the audit period.
 - (2) DHS did not enter into a written contract with a vendor of the Child Welfare Services: State Grants (CWSS) Program that provided adult foster care services during fiscal year 2004-05.
 - (3) DHS did not enter into a written contract with 3 vendors of the Chafee Foster Care Independence Program (CFCIP) that provided foster care services to children during the audit period.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

- b. DHS's internal control did not ensure that 3 (8%) of 37 contracts and 1 (6%) of 17 contract amendments were signed by authorized representatives of all parties before services began. As a result, we identified questioned costs of \$221,149 in the Refugee and Entrant Assistance: State Administered Programs (CFDA 93.566), \$60,624 in the Community Services Block Grant Program (CFDA 93.569), and \$535 in the Social Services Block Grant Program (CFDA 93.667).

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts

must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

- c. DHS's internal control, in coordination with DMB, did not ensure that DHS maintained supporting documentation that 1 (2%) of 47 contracts was awarded to a vendor who was not suspended or debarred.

Federal regulation 45 *CFR* 92.35 prohibits DHS and its subgrantees from contracting with or making subawards to any party that is suspended or debarred.

We reviewed the federal List of Parties Excluded From Federal Procurement or Nonprocurement Programs and verified that none of the subrecipients or vendors in our samples were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs in the Child Support Enforcement Program (*CFDA* 93.563) for this item.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that it had addressed the specific situations cited in the prior audit report.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS, IN COORDINATION WITH DMB, IMPROVE ITS INTERNAL CONTROL TO ENSURE THAT ITS PROCUREMENT AND SUSPENSION AND DEBARMENT PRACTICES ARE IN COMPLIANCE WITH APPLICABLE FEDERAL LAWS AND REGULATIONS.

FINDING 4310718

18. Public Assistance Cost Allocation Plan (PACAP)

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100 2MI420122 EBT-06	Award Period: 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2006
	Negative questioned costs of \$4,788 were included in Finding 4310704.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.558: Temporary Assistance for Needy Families
Award Number: G 06 02 MI TANF	Award Period: 10/01/2005 - 09/30/2007
	Questioned costs of \$5,096 were included in Finding 4310707.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5110 G 04 AA MI 5110 G 05 AA MI 5110 G 06 AA MI 5100	Award Period: 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2007 10/01/2005 - 09/30/2007
	Negative questioned costs of \$6 were included in Finding 4310708.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.568: Low-Income Home Energy Assistance
Award Number: G 05 B1 MI LIEA G 06 B1 MI LIEA	Award Period: 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Negative questioned costs of \$968 were included in Finding 4310709.

U.S. Department of Health and Human Services	CCDF Cluster: <i>CFDA</i> 93.575 Child Care and Development Block Grant; <i>CFDA</i> 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 05 01 MI CCDF G 06 01 MI CCDF G 05 01 MI CCDF (Mandatory) G 05 01 MI CCDF (Matching) G 06 01 MI CCDF (Mandatory) G 06 01 MI CCDF (Matching)	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/04/2004 - 09/30/2007 10/04/2005 - 09/30/2008 10/01/2004 - 09/30/2005 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
	Negative questioned costs of \$1,090 were included in Finding 4310711.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.658: Foster Care: Title IV-E
Award Number: 06 01 MI 1401	Award Period: 10/01/2005 - 09/30/2006
	Questioned costs of \$2,328 were included in Finding 4310713.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.659: Adoption Assistance
Award Number: G 06 01 MI 1407	Award Period: 10/01/2005 - 09/30/2006
	Questioned costs of \$277 were included in Finding 4310714.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.667: Social Services Block Grant
Award Number: G 05 01 MI SOSR G 06 01 MI SOSR	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned costs of \$8,491 were included in Finding 4310715.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.778: Medical Assistance Program
Pass-Through Identification Number: 06 06 05 MI 5048 06 06 05 MI 5028	Award Period: 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: (\$2,683)

DHS needs to improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that the correct payroll distribution rates are applied to cost pools.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in federal awards. We questioned costs totaling \$6,657.

DHS incurs a significant amount of costs that benefit more than one federal program, such as the salaries of local DHS office employees who determine client eligibility for several federal programs. DHS assigns the costs that cannot be directly charged to a specific federal program to cost pools. The costs assigned to these pools are then allocated to the federal programs they benefit. During our audit period, DHS had approximately 64 cost pools.

DHS's federally approved PACAP requires personnel who supervise a combination of employee types to distribute their time to cost pools based on the distribution of the relative number of workers they supervise. Appendix D of federal regulation 2 *CFR* 225 requires that costs charged to federal awards must be allocated according to DHS's federally approved PACAP. DHS informed us that local office personnel are required to review and adjust the distributions annually and whenever the number or type of employees changes.

DHS did not use the correct payroll distribution rates for 4 (10%) of 41 employees who supervised a combination of employee types. We determined that the distribution rates used in the payroll system did not reflect the calculated distribution rates for the employees. We noted that, for 3 of the 4 employees, incorrect allocation rates were entered in the payroll system at the beginning of fiscal year 2005-06. The incorrect allocation rates were not detected because there were no staffing changes to generate a rate review. For the remaining employee, the distribution rates appeared to be transposed between the two employee types involved.

RECOMMENDATION

We recommend that DHS improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that the correct payroll distribution rates are applied to cost pools.

FINDING 4310719

19. Federal Payroll

U.S. Department of Health and Human Services	CFDA 93.556: Promoting Safe and Stable Families
Award Number: G 04 01 MI 00FP G 05 01 MI 00FP G 06 01 MI 00FP	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned costs of \$42,652 were included in Finding 4310706.

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G 05 01 MI TANF G 06 02 MI TANF G 06 02 MI TANF	Award Period: 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007 09/21/2005 - 08/31/2006
	Questioned costs of \$1,955 were included in Finding 4310707.

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5110 G 04 AA MI 5110 G 05 AA MI 5100	Award Period: 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2006
	Questioned costs of \$1,653 were included in Finding 4310708.

U.S. Department of Health and Human Services	CCDF Cluster: CFDA 93.575 Child Care and Development Block Grant; CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 05 01 MI CCDF G 06 01 MI CCDF G 05 01 MI CCDF (Mandatory) G 05 01 MI CCDF (Matching) G 06 01 MI CCDF (Mandatory) G 06 01 MI CCDF (Matching)	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2006 10/01/2003 - 09/30/2006 10/04/2004 - 09/30/2007 10/04/2005 - 09/30/2008 10/01/2004 - 09/30/2005 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
	Questioned costs of \$38,834 were included in Finding 4310711.

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 04 01 MI 1420 G 05 01 MI 1420	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006
	Questioned costs of \$35,232 were included in Finding 4310716.

DHS did not ensure that payroll costs charged to federal programs were properly documented.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in federal awards. We identified known questioned costs totaling \$120,326 and known and likely questioned costs totaling \$667,103.

DHS's direct federal payroll expenditures for major federal programs totaled \$60.2 million for the two-year period ended September 30, 2006. We reviewed 58 DHS direct federal payroll expenditure items for federal programs for compliance with federal laws and regulations regarding allowable costs/cost principles. Our review disclosed:

- a. DHS did not maintain the required personnel activity reports to support predetermined payroll cost distribution rates for 2 employees who were charged to multiple federal programs and did not ensure that the personnel activity reports were signed for 1 employee. Because DHS did not appropriately document the actual hours worked on each of the federal programs for the 3 employees, it could not verify that the predetermined payroll cost distribution rate accurately reflected actual activity of the employees and that payroll costs charged to the federal programs were appropriate. As a result, DHS was not in compliance with federal regulations regarding federal payroll documentation and we identified known questioned costs totaling \$6,122 and known and likely questioned costs totaling \$220,036.

Appendix B, section 8 of federal regulation 2 *CFR* 225 requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is

compensated, must be prepared at least monthly, and must be signed by the employee. Also, Appendix B, section 8 of federal regulation 2 *CFR* 225 requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

- b. DHS did not maintain the required payroll certifications to support payroll costs charged for 3 employees. Because DHS did not document that these employees each worked solely on a single federal program, it could not verify that the payroll costs charged to each federal program were appropriate. As a result, DHS was not in compliance with federal regulations regarding federal payroll documentation and we identified known questioned costs totaling \$114,204 and known and likely questioned costs totaling \$447,067.

Appendix B, section 8 of federal regulation 2 *CFR* 225 requires employees who are expected to work solely on a single federal award to periodically certify that the employees did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

We reported similar conditions in our prior Single Audits. DHS indicated in its June 2006 corrective action plan that it provided instruction on personnel activity reports to the staff and would be sending quarterly reminders to ensure compliance.

RECOMMENDATION

FOR THE FIFTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS ENSURE THAT PAYROLL COSTS CHARGED TO FEDERAL PROGRAMS ARE PROPERLY DOCUMENTED IN COMPLIANCE WITH FEDERAL REQUIREMENTS.

FINDING 4310720

20. Subrecipient Monitoring

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G 04 01 MI TANF G 05 01 MI TANF	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: 0404MIHMR G 05 04 MI 4004	Award Period: 10/01/2003 - 09/30/2008 10/01/2004 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 04 B1 MI LIEA G 05 B1 MI LIEA G 01 01 MI LIE5	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 09/30/2001 - 03/31/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.569: Community Services Block Grant
Award Number: G 04 B1 MI COSR G 05 B1 MI COSR	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 05 01 MI 1401	Award Period: 10/01/2004 - 09/30/2005
	Questioned Costs: \$0

DHS's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reduction of federal awards.

Our review of DHS's centralized subrecipient monitoring disclosed that DHS did not always issue, or have documentation that it issued, management decisions regarding subrecipient Single Audit findings. In addition, DHS did not always issue

the documented management decisions within six months of receipt of subrecipient reports.

Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

OMB Circular A-133, Section 400, requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report.

DHS did not provide documentation of issuing a management decision letter for 2 (14%) of 14 subrecipient audit reports reviewed. However, DHS did obtain the corrective action plan for the 2 subrecipients. In addition, DHS did not issue a management decision on a timely basis for 6 (50%) of 12 documented subrecipient audit reports reviewed. On average, DHS was 126 days late in issuing these management decisions.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that program administrators would be informed of the follow-up requirements and the audit status tracking system would be used to ensure compliance.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

FINDING 4310721

21. Cash Management

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 8MI400067 2MI400100 2MI420122 EBT-04 EBT-05 EBT-06	Award Period: 09/27/2001 - 06/01/2005 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.558: Temporary Assistance for Needy Families
Award Number: G 04 01 MI TANF G 05 01 MI TANF G 06 02 MI TANF	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 04 B1 MI LIEA G 05 B1 MI LIEA G 06 B1 MI LIEA	Award Period: 09/30/2001 - 03/31/2005 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.667: Social Services Block Grant
Award Number: G 05 01 MI SOSR G 06 01 MI SOSR	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

As a result, DHS overdrew cash funds, lost and understated interest due to the State from the U.S. Department of Treasury, and received excess interest from the U.S. Department of Treasury. Noncompliance with CMIA provisions could negatively affect federal program funding, including possible sanctions by federal granting agencies.

The CMIA was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State has an agreement with the U.S. Department of Treasury to implement the CMIA in accordance with federal regulation 31 *CFR* 205. To comply with the CMIA, the State must annually compare actual and prescribed cash draws and determine if interest is due from or to the U.S. Department of Treasury.

Our review of DHS's compliance with the CMIA disclosed:

a. DHS did not always draw federal funds in accordance with the CMIA agreement:

- (1) DHS did not use the correct funding technique as outlined in the CMIA agreement for the Low-Income Home Energy Assistance Program (LIHEAP). As a result, DHS had underdrawn \$0.5 million and \$1.4 million during fiscal years 2005-06 and 2004-05, respectively.

The current CMIA agreement requires that DHS use the Modified Payment Schedule - Biweekly funding technique, which calculates the draws based on a prorated amount of the estimated total annual program expenditures. DHS continued to use the funding technique from the fiscal year 2003-04 CMIA agreement, which calculated the draws based on the prior quarter cost allocation.

- (2) DHS did not use the correct funding technique as outlined in the CMIA agreement for the Social Services Block Grant (SSBG). As a result, DHS had overdrawn \$148,900 and \$86,900 during fiscal years 2005-06 and 2004-05, respectively.

The current CMIA agreement requires DHS to use the Modified Grants for Administrative Costs funding technique, which calculates the draws by dividing the annual award by the number of paydays in the year. DHS continued to use the fiscal year 2003-04 calculated draw and did not adjust the calculation to reflect the fiscal year 2005-06 grant award and fiscal year 2004-05 grant award.

- (3) DHS did not draw the correct amount for the Temporary Assistance for Needy Families (TANF) biweekly payroll adjustment for the first quarter of

fiscal year 2004-05. As a result, DHS had overdrawn \$2.1 million during the first quarter of fiscal year 2004-05.

The CMIA agreement requires DHS to calculate the biweekly payroll adjustment based on the amount of federal funds expected to be paid out for program purposes during the year. DHS had overdrawn \$356,200 for each of the six biweekly payroll draws in the first quarter based on DHS's calculation of federal funds expected to be paid out.

- b. DHS did not submit complete and accurate information to the Michigan Department of Treasury in its annual CMIA report. As a result, calculations of interest due to and from the U.S. Department of Treasury were incorrect. Our review disclosed:
 - (1) DHS did not include information in its fiscal year 2005-06 and 2004-05 annual reports to the Michigan Department of Treasury regarding the incorrect funding techniques used for LIHEAP and SSBG noted in items a.(1) and a.(2) of this finding, respectively. As a result, interest due the State was understated for LIHEAP by \$6,400 and \$10,000 for fiscal years 2005-06 and 2004-05, respectively. Interest due the U.S. Department of Treasury was understated for SSBG by \$1,300 and \$300 for fiscal years 2005-06 and 2004-05, respectively.
 - (2) DHS did not include information in its fiscal year 2004-05 annual interest report to the Michigan Department of Treasury regarding the excess cash draws for the TANF Program noted in item a.(3) of this finding. As a result, interest due the U.S. Department of Treasury was understated by \$14,200.
 - (3) DHS did not include information in its fiscal year 2005-06 and 2004-05 annual reports to the Michigan Department of Treasury regarding quarterly adjustments of \$6 million for Food Stamps Program administration that could not be immediately adjusted because of restrictions related to the letter of credit. As a result, interest due the U.S. Department of Treasury was understated by \$5,800 and \$5,900 for fiscal years 2005-06 and 2004-05, respectively.

We reported similar conditions in our prior Single Audit. DHS indicated in its June 2006 corrective action plan that it would strengthen its internal control to ensure that federal funds are drawn in compliance with the CMIA agreement.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL TO ENSURE COMPLIANCE WITH FEDERAL CASH MANAGEMENT REQUIREMENTS CONTAINED IN THE CMIA.

FINDING 4310722

22. Backup and Disaster Recovery Plans

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 8MI400067 2MI400100 2MI420122 EBT-04 EBT-05 EBT-06	Award Period: 09/27/2001 - 06/01/2005 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Justice	<i>CFDA</i> 16.588: Violence Against Women Formula Grants
Award Number: 2003-WF-BX-0193 2004-WF-AX-0017 2005-WF-AX-0043	Award Period: 04/01/2003 - 03/31/2005 04/01/2004 - 03/31/2006 04/01/2005 - 03/31/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.556: Promoting Safe and Stable Families
Award Number: G 04 01 MI 00FP G 05 01 MI 00FP G 06 01 MI 00FP	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.558: Temporary Assistance for Needy Families
Award Number: G 04 01 MI TANF G 05 01 MI TANF G 06 02 MI TANF	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.563 Child Support Enforcement
Award Number: G 05 04 MI 4004 G 06 04 MI 4004	Award Period: 10/01/2004 - 9/30/2005 10/01/2005 - 9/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5110 G 04 AA MI 5110 G 05 AA MI 5100	Award Period: 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2004 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 04 B1 MI LIEA G 05 B1 MI LIEA G 06 B1 MI LIEA	Award Period: 09/30/2001 - 03/31/2005 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.569: Community Services Block Grant
Award Number: G 04 B1 MI COSR G 05 B1 MI COSR G 06 B1 MI COSR	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CCDF Cluster: CFDA 93.575: Child Care and Development Block Grant; CFDA 93.596: Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 05 01 MI CCDF G 06 01 MI CCDF G 05 01 MI CCDF (Mandatory) G 05 01 MI CCDF (Matching) G 06 01 MI CCDF (Mandatory) G 06 01 MI CCDF (Matching)	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/04/2004 - 09/30/2007 10/04/2005 - 09/30/2008 10/01/2004 - 09/30/2005 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.645: Child Welfare Services: State Grants
Award Number: G 05 01 MI 1400 G 06 01 MI 1400	Award Period: 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 05 01 MI 1401 06 01 MI 1401	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 06 01 MI 1407	Award Period: 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.667: Social Services Block Grant
Award Number: G 05 01 MI SOSR G 06 01 MI SOSR	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 04 01 MI 1420 G 05 01 MI 1420 G 06 01 MI 1420	Award Period: 10/01/2003 - 09/30/2005 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (4310701).

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF HUMAN SERVICES
Summary Schedule of Prior Audit Findings
As of April 30, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430501
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Department of Human Services' (DHS's) internal control over financial reporting continued to be unable to ensure that its SEFA preparation process resulted in a reliable, complete, and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

Comments: DHS removed "non-federal award expenditures" from the SEFA financial columns as opposed to segregating them and calling them non-federal. DHS will continue to footnote its expenditures that are financed by revenue with a federal character of object classification as reflected in the State of Michigan and DHS schedule of General Fund revenue. DHS has adjusted the SEFA report columns to better reflect directly expended expenditures and subrecipient expenditures. DHS will update its administrative guide and contract manual to reflect the new processes.

Audit Findings Not Fully Corrected or Partially Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430502
Finding Title: Backup and Disaster Recovery Plans

Finding: DHS, in conjunction with the Department of Information Technology (DIT), did not coordinate efforts to ensure that DHS established and implemented comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems.

Comments: DHS has communicated to DIT and DIT agreed to comply with the recommendation. DIT has started to update the disaster recovery plans for systems housed in the client-server and mainframe environments. Procedures requiring the development, comprehensive documentation, and backup schedules and practices for disaster recovery plans for all platforms and applications are being developed in conjunction with DIT. Overall standards and testing requirements of a disaster recovery plan are being addressed at an enterprise-wide level. Disaster recovery plans are being incorporated into BRIDGES* system planning. DIT is evaluating the feasibility of and designing an enterprise-wide strategy for conducting recovery tests for various technical environments. Once the enterprise recovery test designs and plans are finalized, DHS will coordinate with DIT to comply with the recommendation. DIT is now storing backup and recovery tapes at an off-site facility.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430503

Finding Title: Children's Trust Fund (CTF)

Finding: DHS's internal control may not be effective in ensuring that CTF assets are safeguarded, transactions are properly recorded, and errors are prevented or detected in a timely manner.

Comments: CTF completed a physical inventory of all "for sale" items and implemented a system to ensure that assets are protected. CTF management reviews transactions to ensure that they are supported by appropriate documentation.

* See glossary at end of report for definition.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430506
Finding Title: Juvenile Accountability Incentive Block Grants (JAIBG),
CFDA 16.523

Finding: DHS's internal control over the JAIBG Program did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Comments: The Bureau of Juvenile Justice submits expenditure match requirements to the Division of Revenue and Federal Reporting, Bureau of Accounting, to ensure that compliance is met. Contracts now include the *Catalog of Federal Domestic Assistance (CFDA)* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430507
Finding Title: Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), *CFDA* 16.540

Finding: DHS's internal control over the JJDP Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Comments: Measures have been put in place to ensure that expenditures are allowable and authorized by appropriate personnel. Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430510
Finding Title: Child Support Enforcement (CSE), *CFDA* 93.563

Finding: DHS's internal control over the CSE Program did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Comments: Implementation of the Michigan Child Support Enforcement System (MiCSES) in September 2003 ensures responses to interstate cases in accordance with federal regulations. Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430522
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Comments: See Finding 430501 with the findings related to the financial schedules and financial statements.

Audit Findings Not Fully Corrected or Partially Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430504
Finding Title: Internal Control Over Federal Programs

Finding: DHS's internal control was not effective in ensuring federal program compliance and accurate and timely financial and program reporting.

Comments: Meetings were held with the individual program managers to review the audit findings to discuss their significance and raise

awareness and improve compliance. Responses to the specific findings are further defined in the corrective actions, being taken by DHS. The audit tracking system provides management with the status of corrective actions, which are discussed regularly at the executive staff level.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430505
Finding Title: Food Stamp Cluster, *CFDA* 10.551 and 10.561

Finding: DHS's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, procurement and suspension and debarment, reporting, and special tests and provisions.

Comments: DHS worked with Purchasing Operations, Department of Management and Budget (DMB), to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements. The human services contracts administered by DHS include the lobbying certification requirements in its standard contract language. Contractors are checked against the federal debarment list prior to, and as a condition of, contract execution. DHS continues to implement corrective action to ensure that appropriate procedures are in place to accurately account for program expenditures.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430508
Finding Title: Violence Against Women Formula Grants (VAW), *CFDA* 16.588

Finding: DHS's internal control over the VAW Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking;

procurement and suspension and debarment; reporting; and subrecipient monitoring.

Comments: DHS implemented corrective actions to ensure that reporting requirements are met and properly accounted for. DHS worked with DMB Purchasing Operations to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements. The human services contracts administered by DHS include the lobbying certification requirements in its standard contract language. Contractors are checked against the federal debarment list prior to, and as a condition of, contract execution.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430509

Finding Title: Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

Finding: DHS's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, subrecipient monitoring, and special tests and provisions.

Comments: DHS monitors case file documentation by local office administrative reviews. A memorandum was issued in July 2005 that reiterated procurement card policy and procedures. Inactive procurement cards were deactivated in January 2006. DHS worked with DMB Purchasing Operations to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements. The human services contracts administered by DHS include the lobbying certification requirements in its standard contract language. Contractors are checked against the federal debarment list prior to, and as a condition of, contract execution. DHS continues to implement corrective action to ensure that appropriate procedures are in place to accurately account for

program expenditures. Measures have been put in place to ensure that expenditures are allowable and authorized by appropriate personnel. Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract. A child support sanctions training package was developed for family independence managers along with two desk aids for family independence specialists/eligibility specialists workers. MiCSES changed in October 2005 so that the noncooperation notice worker copy is sent to the county of the client's TANF case rather than the county of the Child Support court case. DHS is working with the Department of Labor and Economic Growth and DIT to complete an interface between the Automated Social Services Information and Support System and the One-Stop Management Information System so that assistance can be terminated for those who refuse to engage in work.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430511
Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Finding: DHS's internal control over REAP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, period of availability of federal funds, procurement and suspension and debarment, reporting, and subrecipient monitoring.

Comments: DHS has taken the following actions:

- Policy manual changes reflect correct payment information for supportive services.

- Refugee services program staff monitor the Refugee Cash Assistance (RCA) cases so that targeted alerts are sent to the local offices.
- Private contracting agencies were informed of the proper treatment of unscheduled services and holiday allowances.
- Bills are returned to the REAP unit to review for proper signatures prior to submission for payment.
- DHS developed contracts with Unaccompanied Refugee Minors Program providers effective October 1, 2005.
- Separate program cost accounts were established for fiscal year 2004-05 and fiscal year 2005-06 so that services are charged to the proper year.
- DHS worked with DMB Purchasing Operations to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements.
- Quarterly report preparation was contracted out and reviewed by program staff prior to submission to the federal funding source.

DHS met with the Department of Community Health to determine the best approach to secure the eligibility documentation. DHS is now working with DIT data warehouse staff for resolution.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430512
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568

Finding: DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with

federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; and reporting.

Comments:

DHS implemented a system to track the leveraging award. DHS monitors case file documentation by local office administrative reviews. The Local Office Automation II budget was revised to provide asset verification and prefill the payment authorization (DHS-849) and the decision notice (DHS-1419). Categorical eligibility eliminates the need for asset and income verification for energy related emergencies. DHS included the MI-1040CR-7 (home heating credit claim form) review in its interagency agreement with the Department of Treasury and is now reviewing it on an annual basis. DHS worked with DMB Acquisition Services to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements. DHS strengthened its internal control to ensure that federal funds are drawn down in accordance with the federal Cash Management Improvement Act (CMIA) agreement. Subrecipient administrative expenditures are now properly accounted for.

Audit Period:

October 1, 2002 through September 30, 2004

Finding Number:

430513

Finding Title:

Child Care Cluster, *CFDA* 93.575 and 93.596

Finding:

DHS's internal control over the Child Care Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, and subrecipient monitoring.

Comments:

DHS implemented a system to track the leveraging award. DHS monitors case file documentation by local office administrative reviews. The child development and care certificate/notice of authorization (DHS-198) can now be accessed on-line. A

corporate document has been created and is available to auditors, program staff, etc. DHS strengthened its internal control to ensure that federal funds are drawn down in accordance with the CMIA agreement. Contracts now include language that addresses monthly and quarterly reporting requirements and required on-site visits.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430514

Finding Title: Foster Care: Title IV-E, *CFDA* 93.658

Finding: DHS's internal control over the Foster Care Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and procurement and suspension and debarment.

Comments: Account coding was established to properly account for adoption performance contracts. DHS developed a corrective action plan, which was accepted by the U.S. Department of Health and Human Services (HHS) to address Foster Care: Title IV-E eligibility accuracy and documentation. The plan includes local office case readings, additional special case reads, and targeted case read sweeps. The State Court Administrative Office provided training to the courts, and DHS provided training to staff. Training and systems enhancements provide additional controls for policy compliance. Changes to the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) were made in collaboration with the Office of Children and Adult Licensing so that a provider's payments are discontinued when the provider's license is not renewed.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430515

Finding Title: Adoption Assistance, *CFDA* 93.659

Finding: DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, and eligibility.

Comments: DHS implemented corrective actions so that costs are properly accounted for. The program improvement plan, approved by HHS, has been implemented to address errors in determining eligibility. An edit was added to SWSS-FAJ to terminate payments when the provider's license expires. A Law Enforcement Information Network check, Child Protection Services central registry check, and licensing check must be completed prior to an adoptive placement.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430516

Finding Title: Chafee Foster Care Independent Living, *CFDA* 93.674

Finding: DHS's internal control over the Chafee Foster Care Independent Living Program (CFCIP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and subrecipient monitoring.

Comments: DHS has taken the following actions:

- Accounting codes were changed to reflect the correct funding source.
- Local office specialized CFCIP/Youth in Transition (YIT) staff received policy training regarding allowable costs and services. Policy clarification was issued in October 2005.
- A database was created to capture YIT expenditure information from the service youth profile report (DHS-4713).

- Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Other corrective actions being implemented include:

- Training regarding allowable and appropriate services and expenditures.
- Monitoring case file documentation through local office administrative reviews.
- Amending contract language to require subrecipients to refer youth to DHS to determine CFCIP eligibility.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430517
Finding Title: Procurement and Suspension and Debarment

Finding: DHS, in coordination with DMB, needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations.

Comments: DHS worked with DMB Purchasing Operations to ensure that contracts comply with the procurement and suspension and debarment requirements and include the lobbying certification requirements. The human services contracts administered by DHS include the lobbying certification requirements in its standard contract language. Contractors are checked against the federal debarment list prior to, and as a condition of, contract execution. Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430518
Finding Title: Public Assistance Cost Allocation Plan (PACAP)

Finding: DHS needs to improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that cost allocations are applied to the correct cost pool and applied at the correct time.

Comments: Corrective actions have been implemented so that costs are properly accounted for and allocated appropriately. DHS has received correspondence from HHS regarding utilization of the cash basis in its cost allocation plan, and DHS is working with it to clarify the issue.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430519
Finding Title: Federal Payroll

Finding: DHS did not ensure that payroll costs charged to federal programs were properly documented in compliance with federal requirements.

Comments: A memorandum was issued on August 31, 2005 to address preparation of personnel activity reports for multi-funded employees.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 430520
Finding Title: Subrecipient Monitoring

Finding: DHS's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Comments: Contracts now include the *CFDA* number and federal participation rate. The contract language includes information directing the contractor to the DHS Web site regarding information relevant to the contract.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430521

Finding Title: Cash Management

Finding: DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

Comments: DHS strengthened its internal control to ensure that federal funds are drawn down in accordance with the CMIA agreement.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 430523

Finding Title: Backup and Disaster Recovery Plans

Comments: See Finding 430502 with the findings related to the financial schedules and financial statements.

DEPARTMENT OF HUMAN SERVICES

Corrective Action Plan

As of August 1, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 4310701

Finding Title: Backup and Disaster Recovery Plans

Management Views: The Department of Human Services (DHS) agrees with the finding.

Corrective Action: Some of the client/server systems included in the finding have recently been replaced and are no longer operational. Disaster recovery plans will be developed for the new systems. Disaster recovery plans for the mainframe systems will be reviewed and updated. Disaster recovery tests will be conducted as enterprise-wide strategies to conduct such tests are formalized. DHS business resumption plans will be updated to include service interruptions due to unavailability of computer systems.

Anticipated Completion Date: December 31, 2009

Responsible Individuals: Pratin Trivedi, DHS
Lynn Draschil, Department of Information Technology

Finding Number: 4310702

Finding Title: Children's Trust Fund (CTF)

Management Views: DHS agrees in part. DHS disagrees with item a. of the finding.

Corrective Action: CTF will establish a separate revenue agency object code for inventory sales. The CTF inventory policy is being updated to include a yearly physical inventory count and an inventory reconciliation to the State of Michigan's accounting system.

Anticipated Completion Date: September 30, 2007

Responsible Individual: Richard Bearup

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 4310703

Finding Title: Internal Control Over Federal Programs

Management Views: This is a summary of issues from other findings in this report.

The issues identified in this finding have been responded to in the management views and corrective action of other findings in this report.

Corrective Action: Please refer to specific findings related to internal control issues.

Anticipated Completion Date: Please refer to specific findings related to internal control issues.

Responsible Individuals: William Addison
John Sorbet

Finding Number: 4310704

Finding Title: Food Stamp Cluster, *CFDA* 10.551 and 10.561

Management Views: DHS agrees for the most part with the finding. DHS is asking the Food and Nutrition Service, U.S. Department of Agriculture, if the citation in Title 7, Part 3016, section 20(b)(6) of the *Code of Federal Regulations* is applicable to the Food Stamp Cluster.

Corrective Action: DHS is taking measures to enhance monthly reconciliation at the local office level and adding additional reconciliation instructions to the *Local Office Accounting Manual*.

Anticipated Completion Date: December 31, 2007

Responsible Individual: Janet Cushman

Finding Number: 4310705

Finding Title: Violence Against Women Formula Grants (VAW),
CFDA 16.588

Management Views: DHS disagrees with the finding. The federal program office provided written directions indicating that match collected from local agencies would be allowable. When the Office of the Auditor General questioned this practice, DHS again contacted federal authorities for clarification. The response, from the Office on Violence Against Women, U.S. Department of Justice, reads in pertinent part, "Accordingly, under the guidance issued by OVW [Office on Violence Against Women] to state STOP Administrators and based upon our authority to interpret federal law and regulations, we do not agree with the Michigan Auditor General Office's finding that the \$2,366,028.00 provided by private non-profit victim services providers should have been a questioned cost."

In addition, even if the local agency match were not appropriate, enough match from other sources was

accumulated and recorded to comply with federal requirements. This program clearly operated in substantial compliance with federal guidelines and does not warrant an adverse opinion.

Corrective Action: DHS will provide match through State dollars.

Anticipated Completion Date: October 1, 2006.

Responsible Individual: Debi Cain

Finding Number: 4310706

Finding Title: Promoting Safe and Stable Families (PSSF),
CFDA 93.556

Management Views: DHS agrees.

Corrective Action: DHS acknowledges monitoring did not occur as required. A reorganization of resources is currently pending. It is expected additional resources will be allocated to this monitoring function and a corrective action plan will be developed and implemented to ensure compliance with requirements.

Anticipated Completion Date: October 1, 2007

Responsible Individuals: William Addison
Gail Fournier
Luci Stibitz
Helen Weber

Finding Number: 4310707

Finding Title: Temporary Assistance for Needy Families (TANF),
CFDA 93.558

Management Views:

DHS agrees in part with the finding. DHS disagrees with the following items:

Activities Allowed or Unallowed, item a.(1); Allowable Costs/Cost Principles, item b.(1); and Subrecipient Monitoring, item f.(1) as it relates to the Family Support Subsidy Interagency Agreement.

DHS disagrees that it claimed emergency foster care expenditures in TANF that were unallowable. Activities that were allowable under the IV-A Emergency Assistance plan are specifically allowable under TANF regulations. The DHS interpretation has been confirmed by U.S. Department of Health and Human Services legal authorities in Washington and Chicago.

DHS disagrees that it did not monitor the Family Support Subsidy Interagency Agreement. It monitors the agreement by approval of the bills and supporting documentation.

Corrective Action:

DHS has developed and is implementing a new technology system (BRIDGES) that will prevent coding errors, have a detailed 60-month federal time limit counter, and require that documentation used for benefit eligibility be recorded within the system.

Field offices will stress the importance of appropriate documentation with eligibility staff. Documentation supporting benefit eligibility will be reviewed during supervisor case readings as well as field office program reviews.

A work request has been submitted to include the child care program in the automated data match process for the Department of Corrections' incarceration match

and the Social Security death match. Corrective actions will be implemented with Release II of BRIDGES.

DHS will follow up with the Office of the State Budget regarding establishing a memorandum of understanding with the Michigan Public Service Commission.

DHS will require management approval signatures on subrecipient bills before processing for payment.

DHS will correct the current 60-month counter report.

Anticipated Completion Date: November 30, 2008

Responsible Individuals: Lisa Brewer-Walraven, Day Care
Deb Christopherson, Foster Care Reporting and Maintenance of Effort
Mave Coxon, BRIDGES and Child Support
Cormellon Dixon, Case Documentation
Gail Fournier, Case Documentation
Kate Hanley, Adoption Assistance
Pam McKee, Child Support
Louise Wing, 60-Month Counter and Social Security Administration Exchange Record

Finding Number: 4310708

Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Management Views: DHS agrees with the finding.

Corrective Action: Refugee Services will develop procedures to ensure adequate documentation and correct accounting of all expenditures.

Anticipated Completion Date: October 1, 2007

Responsible Individuals: William Addison
Al Horn

Finding Number: 4310709

Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568

Management Views: DHS agrees in part with the finding. DHS disagrees with the following items:

Allowable Costs/Cost Principles, item b.(2)(b); Matching, Level of Effort, and Earmarking, item e.; and Reporting, item f.

Regarding item b.(2)(b), the testing of items favored fiscal year 2004-05 samples and did not factor in the significant changes DHS made in fiscal year 2005-06 in the reconciliation process.

Regarding items d. and e., the errors noted for these audit findings were substantially corrected for fiscal year 2004-05 and in full compliance for fiscal year 2005-06. To repeat the findings ignores the implementation of corrective action from the previous audit.

Corrective Action: Case File Documentation: 1. Field office directors will stress the importance of appropriate documentation with eligibility staff. 2. Documentation supporting benefit eligibility will be reviewed during supervisor case readings as well as field office program reviews completed by Regional Service Centers and Outstate Operations. 3. The BRIDGES system, which is scheduled to pilot in November 2007, includes functionality requiring that the documentation used for

benefit eligibility determinations be recorded within this computer system.

Home heating credit claim applications, item b.(2)(a): The Department of Treasury cannot audit every home heating credit claim processed. It has established a threshold for auditing purposes. The DHS Low-Income Home Energy Assistance Program office is in discussion with the Department of Treasury to implement electronic auditing oversight to increase error detection.

Reconciliation of Department of Treasury Electronic Files: Though the reconciliation process notes immaterial differences for fiscal year 2006-07, system changes are being completed for fiscal year 2007-08 to aid in the reconciliation.

Anticipated Completion Date: November 2007

Responsible Individual: Joan Lamoreaux

Finding Number: 4310710

Finding Title: Community Services Block Grant (CSBG),
CFDA 93.569

Management Views: DHS disagrees with Subrecipient Monitoring, item b.

DHS disagrees that DHS's internal control over the CSBG Program did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring. The eligibility criteria DHS used is based on the fact that CSBG can be used to fund administrative capacity-building activities for Community Action Agencies *regardless* of the income level of the Community Action Agency clients who may benefit from those capacity-building activities.

DHS disagrees that activities performed by the subrecipient were unallowable. Before approving the activities, DHS surveyed other states and sought clarification from national experts on CSBG. DHS determined that the activities were allowable based on the input received from the other states and national experts regarding whether CSBG funds could be used as match for other grants.

Corrective Action: DHS will seek further clarification about this issue from federal authorities.

Anticipated Completion Date: December 31, 2007

Responsible Individual: Dwayne A. Haywood

Finding Number: 4310711

Finding Title: Child Care and Development Fund (CCDF) Cluster, CFDA 93.575 and 93.596

Management Views: DHS agrees in part with the finding.

DHS has prevention controls in place that require participant reporting. Providers and parents are required to report changes in their circumstances within 10 days of the occurrence. This self-reporting is 99% effective. Nevertheless, DHS is committed to increasing internal control related to eligibility and case record documentation.

Corrective Action: A work request has been submitted to include the child care program in the automated data match process for the Department of Corrections' incarceration match and the Social Security death match. Additional corrective actions related to case file documentation will be implemented with the BRIDGES system.

Anticipated Completion Date: November 2008

Responsible Individual: Lisa Brewer-Walraven

Finding Number: 4310712

Finding Title: Child Welfare Services: State Grants (CWSS),
CFDA 93.645

Management Views: DHS agrees with the finding. However, although proof of certification was not located (item b), it had no financial impact on these programs.

Corrective Action:

- a. Staff approving payments have been reminded to follow DHS policy in their determination of care payments. Given the exceptionally small amount of questioned costs, DHS believes this is sufficient.
- b. As of fiscal year 2006-07, this certification is no longer a requirement.

Anticipated Completion Date: June 8, 2007

Responsible Individual: Jim Hennessey

Finding Number: 4310713

Finding Title: Foster Care: Title IV-E, *CFDA* 93.658

Management Views: DHS disagrees with the finding.

DHS has enhanced its internal control since the prior audit period, which has resulted in reduced errors in case file documentation and compliance within the federal tolerance limit. The federal funding source reviewed 150 cases (three times the number of cases reviewed by the Office of the Auditor General) and

found the program to be in substantial compliance with federal requirements.

Corrective Action: Field staff will be required to fully document case files and ensure that activities are within the client service plan.

Anticipated Completion Date: December 31, 2007

Responsible Individual: Jim Nye

Finding Number: 4310714

Finding Title: Adoption Assistance, *CFDA* 93.659

Management Views: DHS agrees with the finding.

Corrective Action: A new adoption payment system was implemented in June 2007. This type of error is no longer possible.

Anticipated Completion Date: June 11, 2007

Responsible Individual: Kate Hanley

Finding Number: 4310715

Finding Title: Social Services Block Grant (SSBG), *CFDA* 93.667

Management Views: DHS agrees in part with the finding. DHS disagrees with the following items: Activities Allowed or Unallowed, items a.(1)(a), a.(1)(b), and a.(4); Allowable Costs/Cost Principles, items b.(3) and b.(4); and Eligibility, item d.(5).

DHS disagrees that expenditures were not incurred in accordance with the SSBG State Plan. Services to youth are appropriate per the State Plan and the costs

are allowable in various sections of the plan. Child day-care expenditures were covered by other sections in the fiscal year 2004-05 State Plan.

Although DHS did not have data match systems in place, DHS had a prevention control in place that required participant reporting. Providers and parent/substitute parents are required to report changes in their circumstances to DHS within 10 days of the occurrence, and this self-reporting requirement was highly effective.

Corrective Action:

The 2007 SSBG State Plan will be amended and the 2008 SSBG State Plan will be modified to state that representative payee is an allowable service that does not require a court order.

Field office directors will stress the importance of appropriate documentation with eligibility staff. Documentation supporting benefit eligibility will be reviewed during supervisor case readings as well as field office program reviews. The BRIDGES computer system includes functionality requiring documentation used for benefit eligibility determinations to be recorded within the system.

DHS is developing a Web-based page where the child day-care crime codes can be updated and available to field staff at the time they are updated.

A work request has been submitted to include the child care program in the automated data match process for the Social Security death match. Corrective action will be implemented with Release II of BRIDGES.

Anticipated Completion Date: November 30, 2008

Responsible Individuals: Lisa Brewer-Walraven, Child Care
Cormellon Dixon, Case Documentation
Gail Fournier, Case Documentation

Finding Number: 4310716
Finding Title: Chafee Foster Care Independence Program (CFCIP),
CFDA 93.674

Management Views: DHS agrees in part with the finding. DHS disagrees that federally allowable costs not in the service plan prior to the service being provided should be questioned. DHS also disagrees that costs incurred under an implied contract should be questioned.

Corrective Action: The service youth profile report (DHS-4713) will be updated to include a supervisor signature attesting to the fact that a service plan reflects all services to be purchased for the youth. Compliance will be monitored from the program office.

Coding corrections are being made to ensure that services provided to CFCIP ineligible youth are charged to the correct funding source.

DHS will work with the Department of Community Health for direct access to the birth registry system for foster care staff.

Field Operations Administration services specialist staff will review a sample of case billings and documentation for accuracy and completeness.

Anticipated Completion Date: December 2007

Responsible Individuals: Shannon Gibson
George Noonan
Jim Nye

Finding Number: 4310717

Finding Title: Procurement and Suspension and Debarment

Management Views: DHS agrees that it was not in compliance with procurement and suspension and debarment requirements and that certain written contracts were not in place, but it disagrees that there are questioned costs. Reasonable and appropriate services were provided by implied contracts, and payments were made by DHS according to the terms and conditions of signed contracts that existed prior to and subsequent to the time frame in question. In addition, the programs and services were monitored as if contracts were in place. Because the services and payments were appropriate, the costs should not be questioned in this circumstance.

Corrective Action: Contracts will be developed and executed for all programs as required.

Anticipated Completion Date: July 31, 2007

Responsible Individual: Jim Hennessey

Finding Number: 4310718

Finding Title: Public Assistance Cost Allocation Plan (PACAP)

Management Views: DHS agrees that supervisors' cost should be allocated appropriately according to the staff they supervise.

Corrective Action: DHS intends to amend its cost allocation plan to place most local office first-line supervisors and their superiors into Cost Pool 8007, Local Office Management and Support.

Anticipated Completion Date: October 1, 2007

Responsible Individual: Lawrence Matecki-Fields

Finding Number: 4310719

Finding Title: Federal Payroll

Management Views: DHS agrees that it should follow up on every personnel activity report that is not received.

Corrective Action: The Bureau of Accounting will continue to assist the various offices within DHS to maintain internal control on personnel activity reporting by sending annual communications as a reminder to staff that they need to meet compliance with U.S. Office of Management and Budget Circular A-87.

The Bureau of Accounting will also follow up on each report not received on a timely basis.

Anticipated Completion Date: December 31, 2007.

Responsible Individual: Lilia Denney

Finding Number: 4310720

Finding Title: Subrecipient Monitoring

Management Views: DHS agrees that two management decisions were not made and agrees that two corrective action plans were not obtained.

Corrective Action: DHS will establish internal control to track management decisions and corrective action plans to ensure that they are obtained and processed in compliance with federal regulations.

Anticipated Completion Date: September 1, 2007

Responsible Individual: William Addison

Finding Number: 4310721

Finding Title: Cash Management

Management Views: DHS agrees with the finding.

Corrective Action: The Bureau of Accounting will continue to strengthen internal control to make sure that federal funds are drawn in compliance with the Cash Management Improvement Act agreement. Bureau of Accounting accountants will meet to review the Cash Management Improvement Act agreement for any changes from the preceding year.

Correct interest figures will be reported to the Department of Treasury.

Anticipated Completion Date: May 22, 2007

Responsible Individual: Lilia Denney

Finding Number: 4310722

Finding Title: Backup and Disaster Recovery Plans

See Finding 4310701 with the findings related to the financial schedules and financial statements.

GLOSSARY

Glossary of Acronyms and Terms

adverse opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none">a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are not fairly presented in conformity with the disclosed basis of accounting;b. The financial schedules presenting supplemental financial information are not fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the financial schedules taken by themselves; orc. The audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
AFDC	Aid to Families with Dependent Children.
BRIDGES	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, and child care assistance programs.
CCDF	Child Care and Development Fund.
CCI	child care institution.
CFCIP	Chafee Foster Care Independence Program (formerly Chafee Foster Care Independent Living Program).

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
CIMS	Client Information Management System.
CMA	Cash, Medical, and Administration.
CMIA	Cash Management Improvement Act.
CSBG	Community Services Block Grant.
CSE	Child Support Enforcement.
CTF	Children's Trust Fund.
CWSS	Child Welfare Services: State Grants.
DHS	Department of Human Services.
DHS-1171	assistance application.
DHS-4713	service youth profile report.
DIT	Department of Information Technology.
DLEG	Department of Labor and Economic Growth.
DMB	Department of Management and Budget.
EBT	electronic benefits transfer.
EBT bridge card	A plastic magnetic stripe EBT card used to issue food and cash assistance benefits to eligible DHS customers electronically.
effectiveness	Program success in achieving mission and goals.

efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FNS	Food and Nutrition Service.
FNS-46	issuance reconciliation report.
FNS-209	quarterly status of claims against households report.
FT-471	food stamp summary report.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
GH-280	recoupment activity report.
HHC	home heating credit.
HHS	U.S. Department of Health and Human Services.
IEVS	Income Eligibility and Verification System.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
JAIBG	Juvenile Accountability Incentive Block Grants.

JJDP	Juvenile Justice and Delinquency Prevention: Allocation to States.
LIHEAP	Low-Income Home Energy Assistance Program.
LOA2	Local Office Automation II.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
MARE	Michigan Adoption Resource Exchange.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MiCSES	Michigan Child Support Enforcement System.
MOE	maintenance of effort.
MPSC	Michigan Public Service Commission.
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the <i>Code of Federal Regulations</i> as Title 2, Part 225 (i.e., federal regulation 2 <i>CFR</i> 225).
outstate	Michigan counties other than Wayne County.
PACAP	Public Assistance Cost Allocation Plan.
PSSF	Promoting Safe and Stable Families.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial

information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

RCA

Refugee Cash Assistance.

REAP	Refugee and Entrant Assistance: State Administered Programs.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.
RSS	Refugee Social Services.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>

SSA	Social Security Administration.
SSBG	Social Services Block Grant.
SSI	Supplemental Security Income.
SSN	social security number.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SWSS-FAJ	Services Worker Support System for Foster Care, Adoption, and Juvenile Justice.
TANF	Temporary Assistance for Needy Families.
UMP	Unaccompanied Refugee Minors Program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

USC

United States Code.

USDA

U.S. Department of Agriculture.

VAW

Violence Against Women Formula Grants.

WIA

Workforce Investment Act.

YIT

Youth in Transition.

